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Fiscal Federalism in the UK: How Free is Local Government?

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Summary points

- The UK system of government is one of the most centralized in the developed world. As a result, local governments have very few powers when it comes to tax regulation, while their policy choices are constrained by tightly controlled expenditure mandates.
- Nevertheless, there is evidence that local party control does matter. A switch from Conservative to Labour Party control usually leads to increases in council employment, expenditure and taxes for unitary and upper-tier councils. However, this is not the case for district councils, probably because party differences often materialize over education and social services spending.
- Performance management schemes, in particular the Comprehensive Performance Assessment (CPA), do appear to affect both voter perceptions of local government and its behaviour, but they can have unintended consequences. Overall, such schemes have increased local government spending and taxation, but generally have failed to improve efficiency in the use of resources.
- Incentive schemes like CPA often fail to stimulate higher local government efficiency because they are too output-oriented; incentive schemes should be designed to place substantial emphasis on efficiency, and not just reward output.
- Overall, the evidence suggests that local government in the UK is too tightly controlled from the centre and that the country would benefit from a degree of decentralization.

Introduction

The UK system of government is one of the most centralized in the developed world. This is well documented in the landmark Lyons Report, for example, the outcome of an enquiry into the future role, function and funding of local government in the UK (Lyons 2007). This has been recognized by the current coalition government, which has implemented the Localism Act of 2011. Nevertheless, recent reforms have made only a marginal difference, at best.

There are several aspects to this degree of centralization. First, local councils have only one local tax, a residential property tax (the council tax), where they have freedom to set the rate. Local business rates were abolished in 1990 and replaced by a uniform business rate, the revenues of which are redistributed back to local councils as part of the formula-based grant.¹ This contrasts with many other countries, where sub-national governments have several different major taxes under their control. For instance, individual US states can set income and sales taxes, and counties can determine sales taxes. The Localism Act of 2011 has made it easier for councils to offer ‘cuts’ in the business rate, but such reductions have to be entirely funded locally from other sources.²

Second, councils are heavily dependent on specific grants and the revenue grant from central government. In 2011 these together constituted 70.5% of council revenues. This makes UK local government one of the most dependent on central grants of all the countries in the Organisation for Economic Co-operation and Development (OECD). For example, comparable figures for the United States, France and Germany are 21%, 29%, and 35% respectively.³ Moreover, a large proportion of this overall grant is specifically restricted, especially since the introduction of a ring-fenced grant for schools – the Dedicated Schools Grant – in 2006/07.

Third, government powers to limit local spending, known as ‘rate-capping’, have been on the statute books since the Rates Act 1984, and retained in the 1992 Local Government Finance Act. These powers were used quite

aggressively between 1991/92 and 1998/99. The Labour government used these powers more sparingly, with 43 instances of capping between 1997 and the general election of 2010; just over three per year for 380 councils. Under the coalition government, following the advice of the Lyons Report, and via the Localism Act of 2011, the capping regime has been replaced by a provision for proposed increases in council taxation to be subjected to a referendum if the increase is deemed to be excessive. In the current financial year (2013/14), councils are threatened with a referendum if the increase is more than 2% (Sanford 2013). In addition, since 2011/12, a council tax ‘freeze’ has been in place. This is not strictly a cap, but involves cash incentives for councils that freeze or reduce council tax.

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Fourth, inspired by the ‘new public management’ philosophy, councils have been subjected to various performance management assessments since the 1990s. Among the most important was the Comprehensive Performance Assessment (CPA), introduced in 2002.

Recent research underpinning this paper addresses two questions. First, given all the above-mentioned constraints, to what extent does local government have any autonomy? And, secondly, what impact has the new

¹ As of April 2013, the business rate retention scheme allows councils to keep half of the additional revenues from the business rate.

² See Federation of Small Businesses, ‘Business Rates: Discretionary Reliefs’, Standard Note SN/PC/06210, <http://www.fsb.org.uk/092/assets/discretionary-business-rates.pdf>.

³ See <http://www.oecd.org/tax/federalism/oecdiscaldecentralisationdatabase.htm>.

public management philosophy, notably CPA, had upon local government behaviour?

Does party control matter for local government behaviour?

With tight controls on local government, a basic question is whether party control of the council actually matters for local government behaviour. This is investigated in our recent work (Lockwood and Porcelli 2013a), examining all local authorities in England and Wales over the period 1997–2007.⁴

Outside London, there are two types of local government: unitary and two-tier. Unitary local governments are comprised of Unitary Authorities (e.g. Bristol) and Metropolitan Districts (e.g. Birmingham). Both have responsibility for delivering primary and secondary education, social care, social housing and housing benefit, waste disposal, transport, environment, planning and culture. Two-tier local governments comprise counties and the districts below them. Here responsibilities are shared, except for education and social care, which is for the county: for example, districts collect household waste, counties dispose of/recycle it, etc. In London, the Greater London Authority is responsible for strategic planning, policing, fire services and aspects of transport and economic development, with London boroughs being responsible for the remaining services. However, as police and fire services are delivered by separate authorities (and are beyond the scope of this study), the London boroughs are treated as unitary.

We consider both unitary and two-tier local governments in our study. A local government is included in our sample in a given year if and only if (i) one of the two major parties in the UK (the Labour Party and the Conservative Party) has a majority on the council, and (ii) the second-largest party on the council is the other main party. In effect, these are ‘two-party’ councils.

Overall, 38% and 36% respectively of these observations for county and unitary (district) councils fall into

this category. However, by imposing this restriction, it is much more likely that councils with ‘small majorities’ on either side of the 50% threshold (i.e. where the Conservatives or Labour had a small absolute majority of seats) have relatively similar electorates.⁵ This similarity is also tested for directly in Lockwood and Porcelli (2013a).

Councils with small majorities on either side of the 50% threshold are then compared using several different statistical techniques. The main findings are as follows: first, for county and unitary councils, party political control does matter. That is, Labour-controlled councils spend more, tax more and have more employees per capita than ones led by the Conservatives. However, this is not true of district councils.

Looking at expenditure per capita on a variety of different services is instructive. Indeed, differences in spending are mainly concentrated in education and social services, which are always the responsibility of the county and unitary councils. One explanation for this is that these services are more visible or salient to the voter, and possibly more important to councillors, so there may well be greater scope for ideological disagreements over the levels of funding for such services.

To examine these findings in more detail, a visual approach is helpful, starting with upper-tier and unitary councils. In Figure 1, in each case, the horizontal axis measures the percentage of seats in the council held by Labour minus 50%. Therefore, when this variable is equal to zero (shown by the vertical dotted line), control of the council passes from Conservative to Labour. The foremost question is then what happens to the variable measured on the vertical axis at this critical point.

Four key variables are measured in Figure 1. The first is real current expenditure per capita on services provided by the council.⁶ Nominal values are deflated by the 2005 consumer price index (CPI). The second is a measure of

⁴ Data on vote shares and seat shares for local elections are obtained from various editions of the Local Elections Handbook published by the University of Plymouth (Rallings and Thrasher). All other variables are described below.

⁵ For example, a council electorate where 51% of the seats are controlled by Conservatives, and Labour has the second largest number of seats, is likely to be demographically and socially similar to a council electorate where the roles are reversed.

⁶ All financial variables are for the financial year and are estimates, namely the amount of expenditure and tax planned by councils at the beginning of the financial year, rather than outturns. Outturn data are also available, but estimates are a better measure of the spending and tax intentions of the councils.

the local property tax per capita, the tax requirement per capita. In turn, the tax requirement is simply the amount of property tax (and fees) the council intends to collect in that financial year.⁷

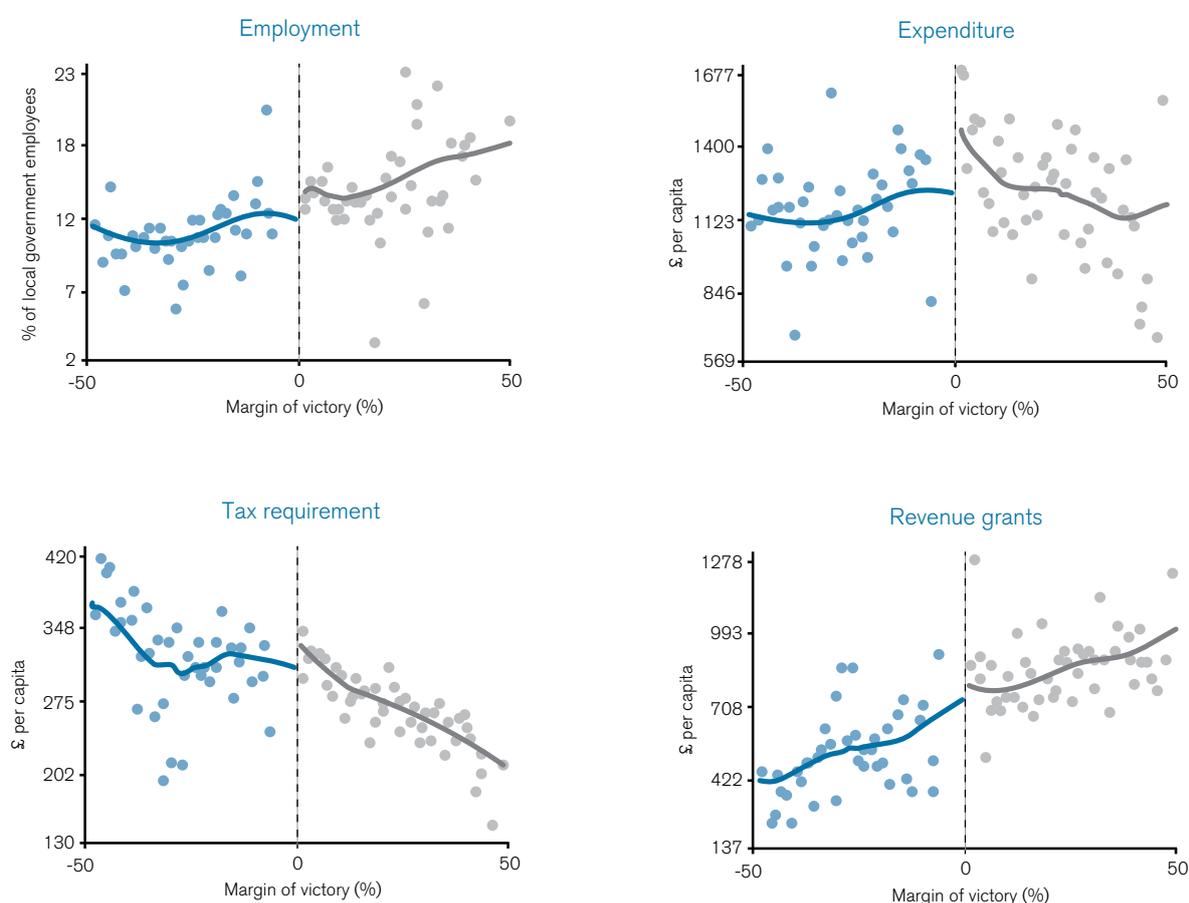
Council employment is the third variable, which is taken from the Labour Force Survey (LFS) published by the Office for National Statistics for the years 1997–2007.⁸ Employees in the sample are classified as council employees if the LFS indicator SECTRO03 classified them as local government or council employees. These data

were used to construct the sample percentage of council employees in a council jurisdiction, which is the total number of council employees sampled in the LFS divided by the total number of employees.

Lastly, the fourth variable is the revenue support grant per capita, which is the main formula-based grant from the centre to local government in the UK.⁹

The graphs in Figure 1 show how the levels of employment, expenditure, the tax requirement and grant vary with the percentage of seats in the council held by Labour

Figure 1: Outcomes for unitary and upper-tier councils



Source: Lockwood and Porcelli (2013a).

⁷ Lockwood and Porcelli (2013b) also study the effective rate of council tax, which is the tax requirement divided by a measure of the tax base. The tax base is measured as the number of standardized domestic properties which are liable for the council tax. Standardization is necessary as (a) the council tax is set according to the size of the property via a banding system, and (b) councils differ in the distribution of property sizes in their jurisdictions.

⁸ The LFS is a survey that is representative of the whole population of the UK. The sample design currently consists of about 50,000 responding households in Great Britain every quarter, representing about 0.1% of the population.

⁹ All financial variables are from the Finance and General Statistics (FGS) and Local Government Comparative Statistics (LGCS), available on the website of the Chartered Institute of Public Finance and Accountancy (CIPFA) from 1997/98 to 2007/08 (CIPFA 2008a; 2008b).

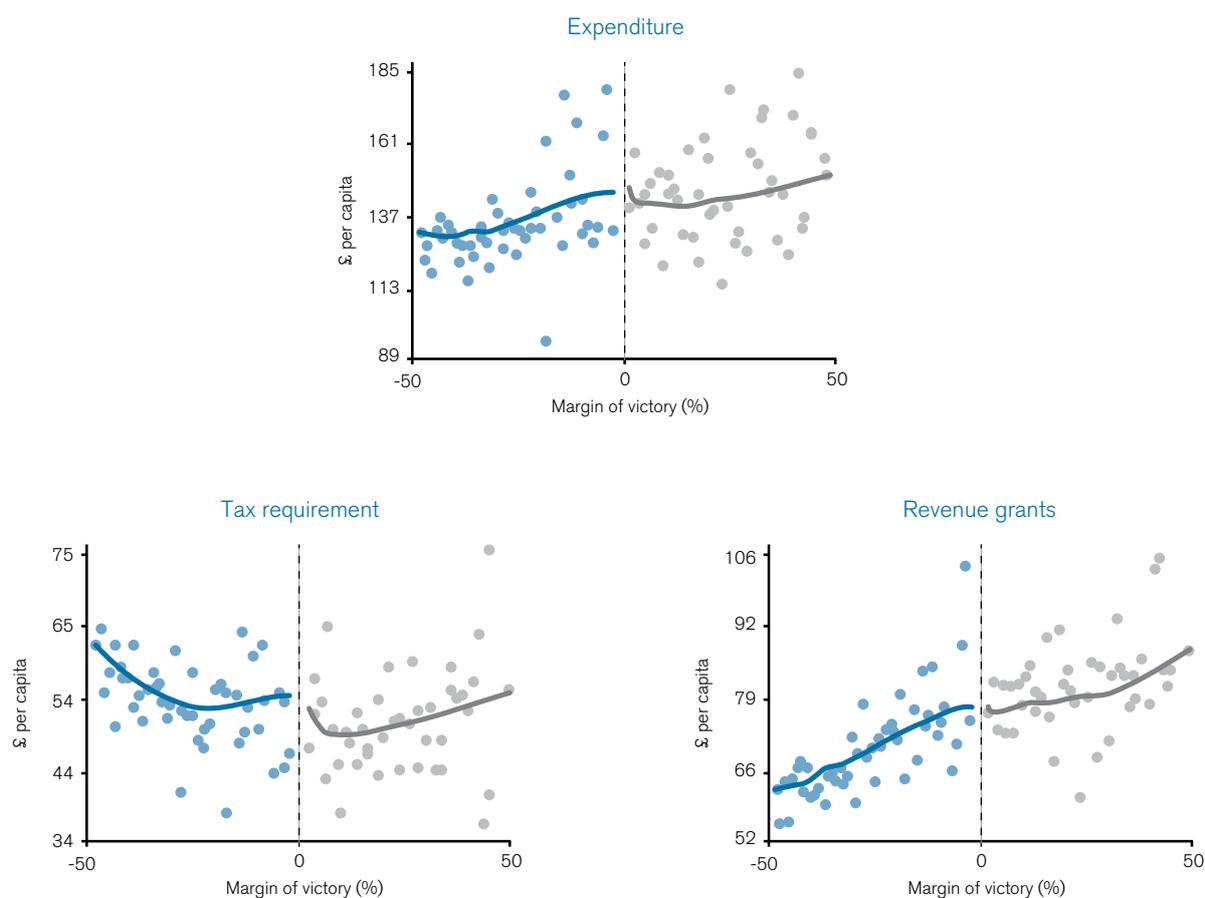
minus 50%. There are well over 1,000 data points for both upper-tier and unitary councils, and district councils, as every council in every year over a decade comprises a data point.¹⁰ Therefore, rather than showing each one, these data points have been grouped into so-called bins. Each bin comprises all the data points over a 2% interval of the variable on the horizontal axis, and the dots in the graph give the average value of expenditure, employment, etc. for all the data points in that particular bin. Finally, the solid line shows a 'best fit' non-linear regression line.

Figure 1 highlights the fact that there is strong evidence of a 'jump' or discontinuity in employment, expenditure and taxation when control of the council passes from the Conservatives to Labour. These are all variables under the control of local government at the margin. However,

for grants, there is no evidence of a discontinuity, which is confirmed by a formal regression analysis reported in Lockwood and Porcelli (2013a). This is in line with what one would expect, given that the revenue grant is formula-based, which is based on local socio-economic characteristics that vary continuously with Labour's share of seats. It is also noteworthy that the revenue grant per capita is always increasing in the share of Labour-controlled seats. This is to be expected, as the revenue grant is designed to transfer resources to economically and socially disadvantaged councils whose electorates are more likely to vote Labour.

Quantitatively, on the best estimates, the effect of Labour, as opposed to Conservative, control of a marginal council on council employment is that it is boosted by about 6%. The increases on expenditure and tax

Figure 2: Outcomes for district councils



Source: Lockwood and Porcelli (2013a).

¹⁰ There are 143 unitary and upper-tier councils in England, and 237 districts.

(effective rate of council tax) are estimated at 16% and 13% respectively. Conversely, one cannot necessarily reject the hypothesis that a switch from Labour to Conservative control has no effect on the revenue grant.

Figure 2 shows similar graphs for district councils. In this instance there are only three panels as it is not possible to measure district council employment using the Labour Force Survey. Figure 2 reveals there is no real evidence of a discontinuity in expenditure and taxation, and this is confirmed by regression analysis. Therefore, at the district level, it does not appear to matter whether the council is controlled by the Conservatives or by Labour.

It turns out there is a statistically significant change only in spending on social services and education. A switch in control from Conservative to Labour leads to an estimated 12% increase in education spending, and an 18% growth in social services expenditure.

A further investigation into the reasons for the difference between the effects of party control on upper and lower tiers of government is instructive. This can be achieved by disaggregating total service expenditure by category, making it possible to identify the particular services where expenditure by upper-tier authorities seems to depend on party control. It turns out there is a statistically significant change only in spending on social services and education. Indeed, a switch in control from Conservative to Labour

leads to an estimated 12% increase in education spending, and an 18% growth in social services expenditure. Hence it is clear that local authorities do have a degree of discretion at their disposal, and discretion does matter. However, in recent years, performance management schemes – particularly CPA – have also been influential, and these are explored in more detail below.

What is CPA?

The CPA scheme was introduced in 2002 and remained operational until it was replaced by the Comprehensive Area Assessment (CAA) in 2009. It rated local governments in England on the quality of service in six major areas: education, housing, social care, environment, libraries and leisure, and use of resources. Hundreds of performance indicators and a variety of audit and inspection reports were collected, summarized, weighted and categorized so as to arrive at a final star rating between 0 and 4.

In addition to being an evaluation scheme, CPA was an incentive scheme. Its stated objective was to target support for those councils that need it most, and to offer a number of benefits for better-performing councils, including the elimination of ‘ring-fencing’ grants, and a three-year exemption from subsequent audit inspections.¹¹

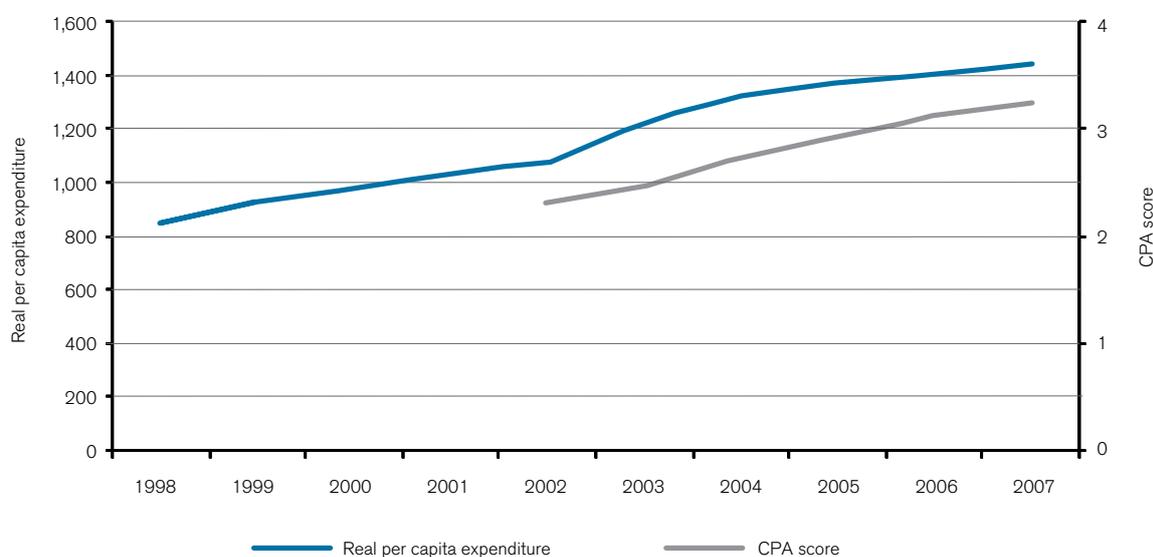
Moreover, because the results of CPA were widely disseminated in the media, it was equally an exercise in providing voters with more information about the performance of their local council, both in absolute terms and relative to other councils. In turn, this sought to provide indirect incentives for good performance. Indeed, there is evidence that councils which performed poorly on CPA were punished by the voters at subsequent elections.¹²

CPA is of particular interest because, to our knowledge, it is the only scheme that provides a quantitative

11 ‘High-scoring’ councils were those performing well under CPA. As a result, they enjoyed reduced audit and inspection regimes (and associated fees), and were granted greater flexibilities and borrowing freedoms by central government. At the other end of the performance spectrum, a combination of audit, inspection and other improvement work was to be commissioned as an outcome of the CPA process, with the aim of transforming failing or poorly performing authorities. (Audit Commission 2009).

12 Revelli (2008) finds that a rating improvement by one star increases the probability that the incumbent party retains control of the council by seven percentage points, and Boyne et al. (2009) find ‘a low CPA score (0 or 1 star) increases the likelihood of a change in political control’.

Figure 3: CPA scores and local government expenditure



Source: Lockwood and Porcelli (2013b).

and public evaluation, in the form of a 'star-rating', of elected representatives. Moreover, similar schemes have been little used outside the UK. One exception is Brazil, where, starting in 2003, municipalities are randomly audited and the audit results made public on the web (Brollo et al. 2013). Perhaps less closely related is the No Child Left Behind programme in the United States, which punishes schools financially for poor test results and is also made public to parents.

Lockwood and Porcelli (2013b) studied the impact of CPA on local government in three dimensions: quality of service delivery, taxation policy and the efficiency with which services were provided. Figure 3 shows the average CPA score achieved by English local authorities from the beginning to the end of the CPA experience, together with average current expenditure per capita by local government. There is a clear and steady upward trend in average CPA star ratings. Indeed, in 2009 the Audit Commission officially declared that CPA had done its job stimulating a continuous improvement in local government performance (Audit Commission 2009). However, Figure 3 also shows that, at the same time, expenditure by local governments went up roughly in line with CPA scores.

Nevertheless, given the significant increases in local government spending over this period, it may well be that service delivery would have improved anyway, even in the absence of CPA. To shed light on this conundrum, Lockwood and Porcelli (2013a) treat CPA as a natural experiment by exploiting the fact that it was only introduced in England, whereas in Wales, where the structure of local government is the same, a much weaker performance management scheme was introduced (Haubrich and McLean 2006; Martin et al. 2010). More specifically, in Wales, there were no quantitative rankings, much less information was published, and the authorities also had a say with regard to the type of inspections they would like to see for specific services. Local authorities in Wales have thus been used here as a control group when assessing the impact of CPA on the 'treatment group', the English councils.

How might CPA be expected to affect the behaviour of local governments in England? Given that it was a scheme which provided information to the voters (and perhaps also to elected officials) of a jurisdiction about the quality and quantity of various 'outputs' of local government, CPA would have been expected to cause these outputs to rise, relative to those councils in Wales (the control

group). However, funding from central government did not simultaneously become more generous in England relative to Wales. The implication, therefore, is that to fund this extra expenditure, taxes would rise in the English local authorities. Finally, CPA rewarded councils for increases in output, rather than increases in the efficiency with which inputs were used, so one should not expect to see any particular increase (or decrease) in the efficiency with which a council in England produces these services relative to a similar council in Wales. Lockwood and Porcelli (2013b) show that the overall effect on efficiency is ambiguous, and they identify conditions under which efficiency can increase or decrease.

What did CPA change?

The precursor to CPA, introduced in the Local Government Act 1999, was the 'Best Value' framework. This provided a framework for the planning, delivery and continuous improvement of local authority services. Best Value Performance Indicators (BVPIs), which were numerical scores measuring the quality of the above services provided by individual councils on various dimensions, were a key part of the framework. And, helpfully, for the purposes of this paper, BVPIs were calculated for both English and Welsh councils.

CPA was a move to a stricter assessment regime within the general Best Value framework. In the first three rounds, the method for assessing the current performance of a council included the following seven categories: social care, environment, libraries and leisure, use of resources, education, housing and housing benefit payments.¹³ Where available, performance was assessed through already existing judgments from inspectorates and auditors, such as those by the Office for Standards in Education (Ofsted) and the Department for Education and Skills (DfES). These were augmented with BVPIs. All of this information was aggregated to obtain a score of

1-4 for each of the service blocks (with 1 being the lowest and 4 the highest). The performance scores were then aggregated across service blocks to produce a performance rating of 1-4 for each authority.¹⁴ Lastly, this score was combined with an estimate of the council's ability to improve (1-4) to produce an overall CPA score.

How can the effects of CPA be measured?

The empirical approach adopted for this paper is to estimate the impact of CPA on efficiency in a quasi-experimental setting through difference-in-difference estimation, using Wales (where CPA was not used) as a control group. Difference-in-difference estimation is a technique that compares trends over time in a population (in this case, councils in England) that has been subject to a reform – the so-called treatment group – to a similar group not subject to the reform, the so-called control group (in this case, Welsh councils). Welsh councils are a suitable control group for three reasons. First, Welsh and English local authorities have the same structure and functions. Second, they are very similar in terms of the average values of the control variables and the input and output variables used to construct the service quality and efficiency indices. Third, local government performance in Wales was assessed by an evaluation programme called the Wales Programme for Improvement (WPI), introduced in 2002.¹⁵ Documented by Haubrich and McLean (2006), WPI was a much less prescriptive and elaborate assessment regime than CPA since only confidential assessments were produced, the evaluation criteria were based only on local self-assessment without quantitative rankings, and no formal rewards or punishments were specified.

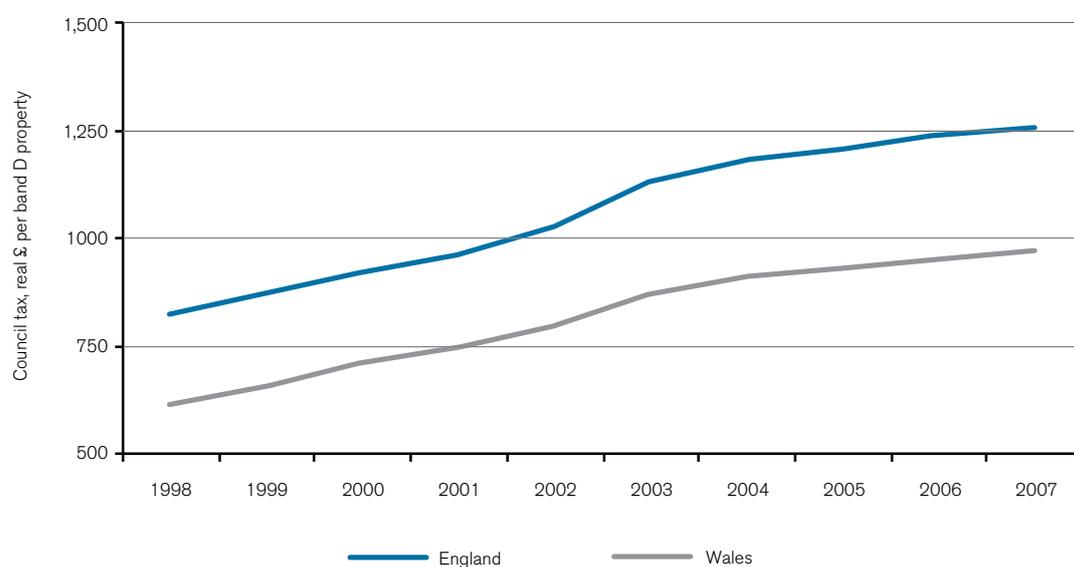
To assess the impact of CPA, this paper examines its effects on three key areas: council tax revenues, service outputs and efficiency. Looking first at the effect of CPA

¹³ CPA did not evaluate transport and planning.

¹⁴ The scores were weighted so that those for education and social services counted four times, housing and environmental services twice, and the remaining blocks only once. These were then added up to produce a performance score of 15–60 points, or 12–48 points for shire county councils (because they do not provide, and are therefore not assessed on, housing or benefits services).

¹⁵ Information and data about WPI can be collected from the website of the Wales Audit Office, www.wao.gov.uk.

Figure 4: Effective council tax rate



Source: Lockwood and Porcelli (2013b).

Table 1: The effect of CPA on the effective rate of property tax

| | Average tax rate pre-CPA | Average tax rate post-CPA | Difference | Difference-in-difference between England and Wales |
|---------|-----------------------------|------------------------------|------------|---|
| England | 872.60 | 1171.26 | 298.66 | |
| Wales | 662.15 | 909.20 | 247.05 | 51.60*** |

Notes: * significant at 10%, ** significant at 5%, *** significant at 1%.

Source: Author's calculations.

on the increase in council tax revenues, Figure 4 shows that the effective property tax rate (the tax requirement per standardized, or band D property) exhibits a clear increase in England relative to Wales after 2002.

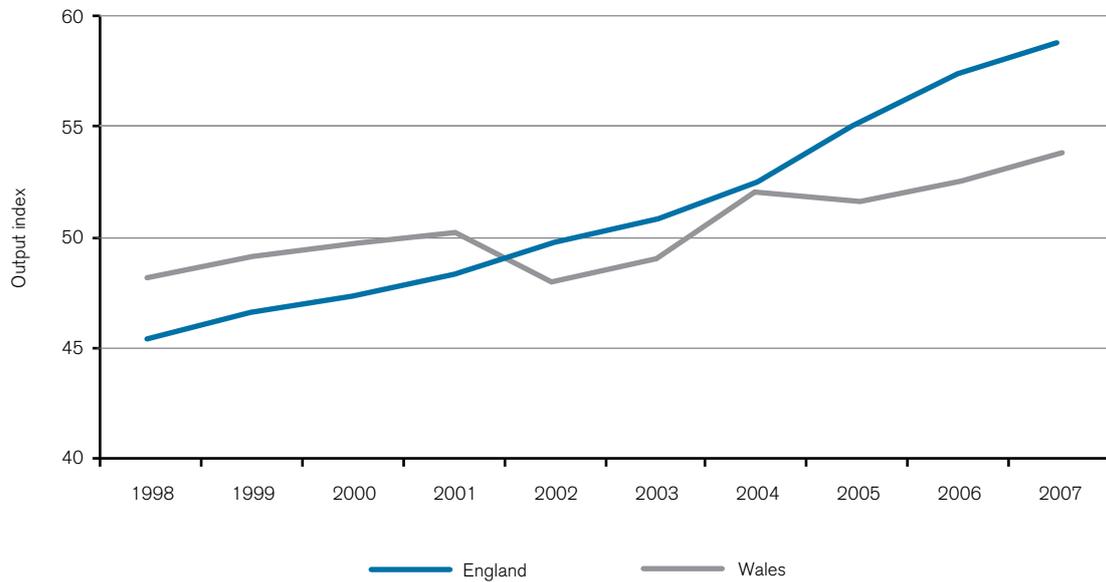
A more detailed analysis of the data is provided in Table 1. The first two columns show the average values of the effective property tax rate before and after the reform in both England and Wales. The third column highlights the differences. As one would expect, both are positive, with taxes

rising over time, even in real terms. The last column shows that tax growth was noticeably higher in England than in Wales during the period of CPA. In other words, this strongly suggests that CPA had a positive impact on the effective property tax rate, raising it by an average of about £52.

As Table 1 merely reports a simple difference in means, and there are other factors that could be driving relative changes in council taxes in England and Wales, a large number of these factors were controlled for.¹⁶

¹⁶ The first category of variables is demographic, such as the percentage of the total population below the age of 16 and above the age of 75, population density, the percentage of households owning their home, etc. The second category includes a set of dummy variables to capture the impact of the ruling party and the features of the electoral system. The third group of variables is related to the structure of the local economy and includes the amount of real per capita revenue support grant received every year by each council, the average household disposable income, the percentage of the workforce claiming unemployment-related benefits, the percentage of people below 65 claiming disability living allowance, etc.

Figure 5: Aggregate output



Source: Lockwood and Porcelli (2013b).

Table 2: The effect of CPA on the output index

| | Average output pre-CPA | Average output post-CPA | Difference | Difference-in-difference between England and Wales |
|---------|------------------------|-------------------------|------------|--|
| England | 46.35 | 53.87 | 7.52 | 4.98*** |
| Wales | 48.85 | 51.39 | 2.54 | |

Notes: * significant at 10%, ** significant at 5%, *** significant at 1%.

Source: Author's calculations.

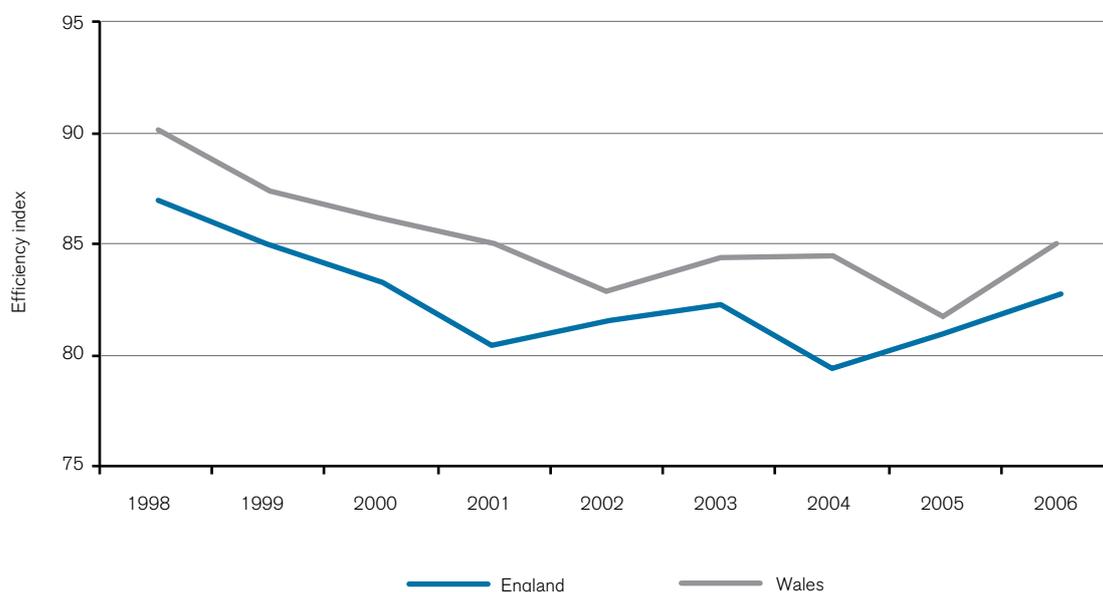
The effect of CPA on the council tax rate was only slightly reduced, at £46, corresponding roughly to a 4% increase in England relative to Wales. Also considered was the effect of CPA on two other measures of council tax revenues: the tax requirement per capita and the tax requirement as a percentage of the budget obligation. The introduction of CPA raised the tax requirement by about £23, or 7%, in England relative to Wales, while it raised the tax requirement as a percentage of the budget obligation by about 6%.

We now turn to the effect of CPA on the quantity and quality of services. In Lockwood and Porcelli (2013b), we measure this by constructing an output index, which is

an index normalized between 0 and 100. Figure 5 demonstrates that the output index rose faster in England than in Wales after the introduction of CPA.

Again, a more detailed statistical analysis is instructive, as can be seen in Table 2. The first two columns show the average values of the output index before and after the reform in both England and Wales. The third column shows the differences, which are both positive. That is, over time, councils in both England and Wales have managed to increase metrics such as examination performance, the percentage of waste recycled, etc. The last column confirms that output growth was significantly higher in England than in Wales during the

Figure 6: Efficiency index



Source: Lockwood and Porcelli (2013b).

Table 3: The effect of CPA on the efficiency index

| | Average efficiency pre-CPA | Average efficiency post-CPA | Difference | Difference-in-difference between England and Wales |
|---------|----------------------------|-----------------------------|------------|--|
| England | 84.41 | 81.33 | -3.08 | 1.18 |
| Wales | 88.04 | 83.77 | -4.27 | |

Notes: * significant at 10%, ** significant at 5%, *** significant at 1%.

Source: Author's calculations.

period of CPA. In other words, there is evidence that CPA had a significant positive impact on the output index, raising it by an average of about 5%. After introducing the large number of control variables already discussed, via multiple regression analysis, the effect of CPA on the output tax index rate is just slightly smaller, at about 4%.

Finally, the effect of CPA on efficiency is examined. In Lockwood and Porcelli (2013b), an index is constructed (normalized between 0 and 100), which measures the efficiency with which a given council in a given year can produce a range of services from specific levels of expenditure on these services. Figure 6 shows the path of the efficiency index in England and Wales (where

the index is the average between the input and output approach) between 1997 and 2007. In both England and Wales, the initial decreasing trend in efficiency reversed its course after the introduction of CPA. Although the initial gap between Welsh and English councils is completely closed in the last year of the sample, there is no clear evidence of a positive impact of CPA on the efficiency of English local authorities relative to the Welsh ones.

A formal statistical analysis is presented in Table 3. This indicates two things. First, perhaps surprisingly, efficiency of provision of services has declined over the CPA period in both England and Wales. Given that

Table 4: The effect of CPA on English councils with initial low electoral competition

| | Council tax rate | Output | Efficiency |
|---------------------------|------------------|--------|------------|
| England (low competition) | 286.70 | 8.30 | -2.69 |
| Wales | 239.82 | 1.91 | -4.17 |
| Difference | 46.88 | 6.39** | 1.48*** |

Notes: * significant at 10%, ** significant at 5%, *** significant at 1%.

Source: Author's calculations.

outputs have been rising, this suggests that taxes and grants have been rising even faster. Secondly, there seems to have been no significant difference in the rate of change of the efficiency index in either case.

What are the effects of electoral competition on policy-making?

The effects of electoral competition on policy-makers' behaviour are widely studied in the political science literature, and increasingly by economists. The study most in line with the analysis in this paper is that of Besley and Preston (2007) who find some evidence that when the incumbent party is not subject to much electoral competition it has more of an opportunity to pursue its policy preferences. These tend to be lower levels of expenditure and reduced local government employment in the case of the Conservatives, and the reverse with respect to Labour.

In this context, it is plausible that CPA will have a greater impact on councils where electoral competition is low, i.e. where one party typically has a large majority of seats on the council. This is because such councils are initially not subject to much pressure to improve their efficiency. As a result, one might expect to find that efficiency is higher under CPA for low-competition English councils. To test this hypothesis, an English council has been defined as facing 'low electoral competition' if the winning party had a margin of victory of more than 5% in elections prior to the introduction of CPA.

The results are summarized in Table 4, which shows the change in the council tax rate, the output index and the efficiency index over the CPA period (relative to the non-CPA period) for low-competition English

and Welsh councils (the control group). In the last line of the table, the differential between low-competition English councils and Welsh councils shows very clearly that low electoral competition does have a significantly positive impact on both output and efficiency, but has little significant effect on tax levels. Indeed, the results indicate that CPA was a *substitute* for electoral competition; in councils where electoral competition was initially weak, CPA significantly increased both output and efficiency while leaving the level of property tax unchanged.

‘In spite of tight central control over local government in the UK, the evidence suggests that local party control does matter: a switch from Conservative to Labour control, for example, leads to increases in council employment, expenditure and taxes for unitary and upper-tier councils’

Conclusion

In spite of tight central control over local government in the UK, the evidence suggests that local party control does matter: a switch from Conservative to Labour control, for example, leads to increases in council employment, expenditure and taxes for unitary and

upper-tier councils. However, the same cannot be said for district councils, probably because party differences materialize in education and social services spending.

Performance management schemes, and CPA in particular, do appear to affect both voter perceptions of local government and local government behaviour. However, they may have triggered unintended consequences. CPA seems to have increased local government expenditure and taxation, but to have had little or no impact on the efficient use of resources. CPA increased the effective council tax rate in England relative to Wales by an estimated 4%, and also raised the index of service quality output by about 4%, but it had no significant effect on efficiency indices. Moreover, there is evidence that CPA can substitute for an initial lack of electoral competition in driving up output and efficiency.

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The key policy implication of these findings is that an incentive scheme, such as CPA, can fail to stimulate higher local government efficiency because it is too output-oriented; incentive schemes, if they must be used, should be designed to place substantial weight on efficiency, and not just reward output.

Overall, these results give credence to the ‘localism agenda’, namely the view that UK local government

is too tightly controlled from the centre and that the country would benefit from a degree of decentralization. More specifically, unlike other countries such as the United States, there is only weak evidence that voter preferences have an impact on council behaviour. This evidence points to a clear ‘democratic deficit’ at local level. Likewise, the fact that CPA seems to have failed in its primary objective of raising efficiency also illustrates the challenges and difficulties of effective ‘top-down’ performance management.

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