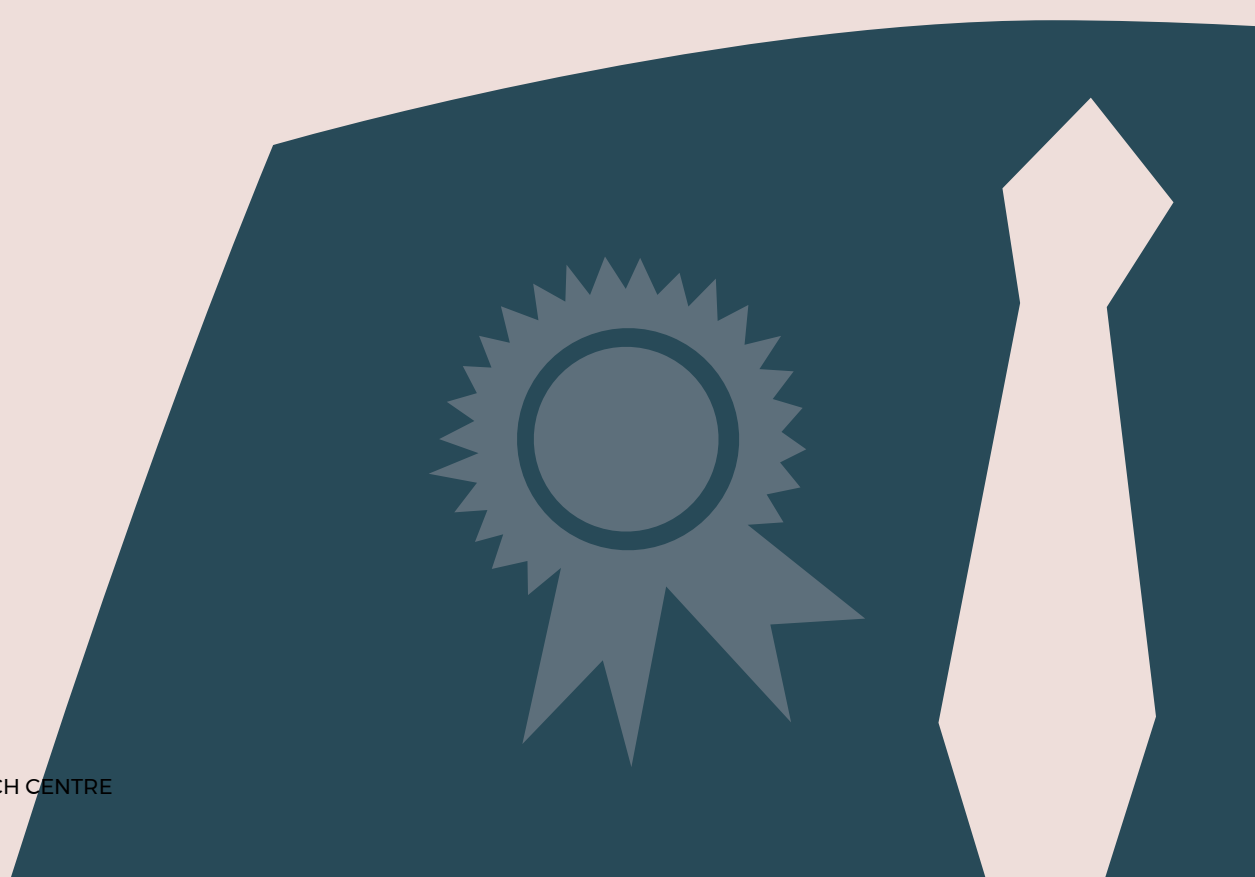
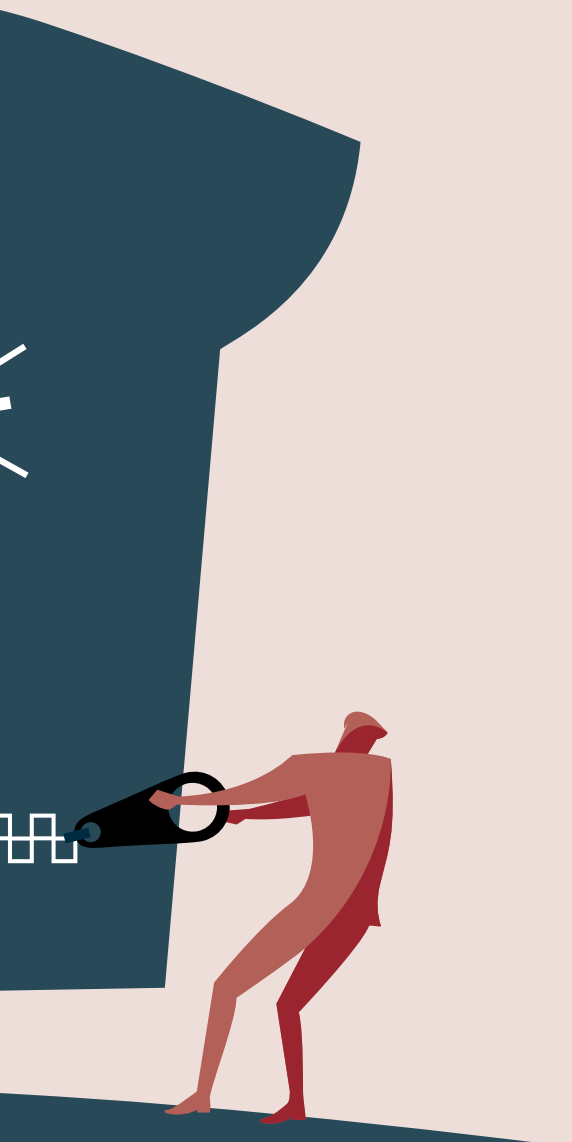


In the grip of Whitehall: How central government is stifling local democracy

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In its bid to tackle regional inequality, the government has promised to hand over more powers to local leaders, continuing a trend towards devolution since 2010. The introduction of the Localism Act, metro mayors and police crime commissioners have changed the way local planning, transport and policing are managed. But when it comes to tax and spending decisions, how much freedom do local authorities have?

We analyse a new dataset combining fiscal and electoral data for England and Wales over the period 1995–2015 to ask a simple question: do the tax and spending choices of local authorities depend on which party controls the council? The answer gives us an insight into the ability of local leaders to shape local policy and respond to local needs.

Are local governments constrained?

In addressing the question, we use an instrumental variable strategy based on close elections. Close elections, where a party wins council seats around the 50% mark, mean that a party majority is effectively achieved by chance. In this context, any observed change in spending or tax decisions can be considered to be driven by party politics rather than by other confounding factors such as ►

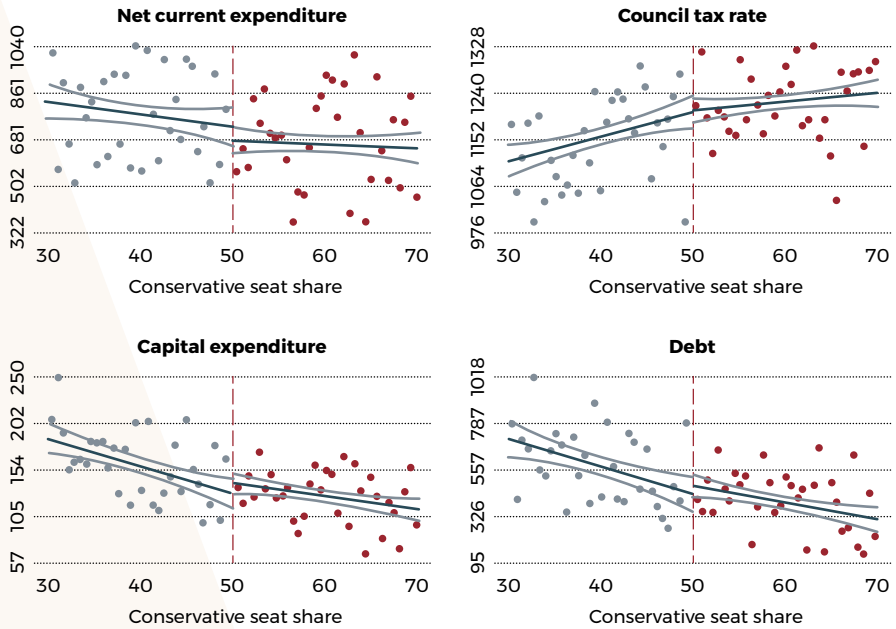
a shift in voter preferences. If a change in party control makes no difference to tax and spending decisions after a close election, we can conclude that local authorities are constrained in their choices.

Our results are illustrated by the two figures shown. Figure 1 shows how tax, spending and debt choices vary with the share of seats on the council held by the Conservative party. When this is below 50%, the council may be controlled by Labour, the Liberal Democrats, or there may be no overall control. When this rises above 50%, the council is Conservative controlled. We see that there is effectively no change in any of the variables measuring tax and spending as we pass the 50% mark, implying that a switch to Conservative control of the council from one of the other scenarios has no effect on tax and spending decisions, holding voter preferences constant.

Figure 2 has the same interpretation, except that now the main spending and tax choices can vary with the share of seats on the council held by the Labour party. The reason why we need a second figure is that at the local government level, there are multiple parties, so absence of Conservative control does not imply Labour control. We see that again, there is effectively no change in any of the variables as we pass the 50% mark, implying that a switch to Labour control of the council from one of the other scenarios (Conservative or Liberal Democrat control, or no overall control) has no effect on spending and tax decisions, holding voter preferences constant.

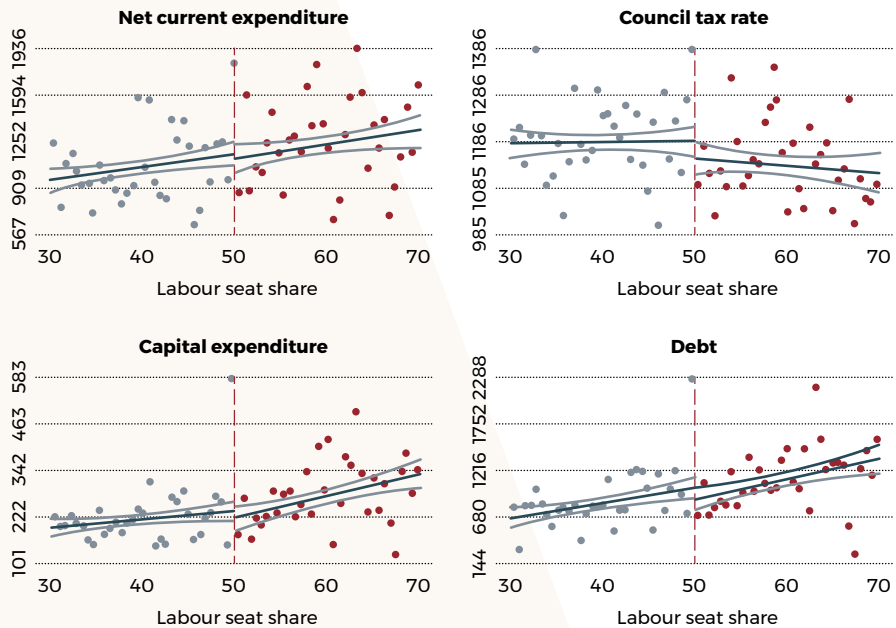
Our analysis also shows a similar picture when we consider close elections which may or may not give control to Liberal Democrats. The result is the same when we look at different types of local authority separately (county and district councils, London boroughs, metropolitan districts and unitary authorities) and when accounting for

Figure 1: The (non-) effects of Conservative local authority control on tax and spending



Notes: The central line is a linear fit to the data. The 95% confidence intervals are also shown. Each dot represents approximately 200 observations. All variables are inflation-adjusted, and measured in £ per capita, except the council tax rate, which is measured in £ per band D dwelling.

Figure 2: The (non-) effects of Labour local authority control on tax and spending



Notes: The central line is a linear fit to the data. The 95% confidence intervals are also shown. Each dot represents approximately 200 observations. All variables are inflation-adjusted, and measured in £ per capita, except the council tax rate, which is measured in £ per band D dwelling.

“Conservative control of the council has no effect on tax and spending decisions, holding voter preferences constant.”

other factors such as population size and the proportion of the population under the age of 15 and over 65 in a given area. Our overall conclusion is that party control has no effect on the spending and tax choices of local authorities.

Our results show that local government in the UK is constrained in its ability to respond to local needs.

Explaining the findings: why are local authorities constrained?

In the UK, relative to other developed countries, restrictions from central government remove freedoms for local councils to make different policy choices. For example, council tax is the only major revenue-raising tax where the rate can be set locally. However, since 1984, local authorities have been constrained in the council tax increases that they set: first by ‘rate-capping’, and now by a regime that requires a referendum if the council tax increase exceeds a cap. This cap was 2% between 2012 and 2016 and has only recently been increased to deal with the funding crisis in social care.

A recent survey by the *Local Government Chronicle* found that most local authorities are planning on setting the maximum council tax increase in 2022, which is clear evidence that they are constrained. Moreover, council tax only comprises

on average 20% of revenue for local authorities, meaning that they are heavily reliant on central funding.

In terms of spending on services, local authorities again face constraints. Many services are funded via specific grants – such as primary and secondary education, which comprises about 22% of total service expenditure in our dataset.

Even where funding is not via a specific grant, the statutory responsibilities of local authorities are often sufficiently precise to leave councils little latitude. Social care funding, for example, is largely determined by the demographic characteristics of the local population.

Capital expenditure is rather different. Since 2003, each authority must set a total borrowing limit in accordance with the principles of the Prudential Code. Most borrowing is from central government at preferential interest rates; only a very small number of authorities issue bonds. This is in stark contrast to the US, for example, where municipal bonds are widely used to fund investment.

The way ahead

In 2007, the influential [Lyons report into UK local government](#) concluded that centralisation across public services in the 1980s and 1990s has inhibited the ability of local government to respond to

local needs and preferences, and to manage financial pressures’. Although there have been some minor improvements since then, such as the business rate retention scheme (2013), our data shows that the picture described by Lyons remains largely unchanged.

Most other attempts to empower local leaders since 2010 have focused on devolving management decisions (e.g., transport, crime or planning) rather than giving local authorities the fiscal freedom to make the best choices for their local area.

To tackle regional inequality effectively, Whitehall may need to loosen its grip on local taxation and spending. ◀

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