

Modernising Local Democracy

A Response to the Government's Consultation Process on Local Government

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Executive summary

Over the 18 years of Conservative governments between 1979 and 1997, central control over the activities of local authorities in the UK was steadily increased. Non-domestic rates were effectively 'nationalised' in 1990, responsibility for services such as further education and London Transport was removed from local councils, and the capping system restricted the freedom of many councils to determine their own budgets. By 1997–98, 83 per cent of local councils were setting their budgets at the pre-announced expenditure limits laid down by central government. This replacement of local decision-making by central dictat has resulted in the capping system becoming arguably the single most important influence on the local budgetary process.

Last year's Labour Party election manifesto argued that 'local decision making should be less constrained by central government, and also more accountable to local people'. In particular, Labour pledged that 'crude council tax capping should go' but that reserve powers 'to control excessive council tax rises' would be retained. Over the last few months, six consultation documents have been published which, amongst other things, consider alternative ways of encouraging councils to make spending choices that are economically efficient and match the needs and preferences of their local voters. The possible options for reform include the introduction of annual elections for a proportion of councillors and local budgetary referendums.

In this Commentary, we examine the criticisms that have been levelled at the present capping arrangements and the arguments for why councils should be left free to determine their own budgets. Universal capping may have simplified the planning and control of overall public expenditure but means local people are no longer free to choose the level of taxation and spending that they want. Extensive central controls may also reduce local accountability. If the quality of local services is largely dependent on grant and capping decisions made by central government, national political issues may dominate local elections. Rival political parties cannot credibly offer a package of higher spending paid for through higher council tax bills, so an important dimension of political competition is lost at the local level.

Under government proposals, the criteria that will be used to determine which local budgets will be capped will no longer be announced in advance, leading to considerable uncertainty for local councils. Councils that have their budgets retrospectively capped will have to make speedy budget reductions and bear the cost of reissuing council tax bills to local residents. We argue that selective capping is a poor substitute for reforms that encourage local authorities to make economically efficient spending decisions and increase the health of the local democratic process.

Effective and accountable local decision-making depends on the existence of a stable and transparent local finance system and local councils being genuinely accountable to their electorates. At present, £1 of extra spending leads to £1 extra being raised from the council tax, creating a clear link between local spending decisions and changes in council tax bills. High 'gearing ratios', which mean that a 1 per cent increase in local spending increases council tax bills by 4 per cent on average, are likely to discourage 'excessive' spending increases. But the heavy dependence of councils on central government grant

means that council tax bills can be highly sensitive to changes to the formula used to allocate central grant between local councils. Government proposals to freeze this formula for three years from 1999 may make the link between spending decisions and local tax bills more transparent.

The responsiveness of local councils to the needs and preferences of their residents may be reduced where some councils only face election once every four years and less than four in 10 people typically turn up to vote. The government has proposed introducing annual elections and even local budgetary referendums as well as measures to encourage a higher turn-out at local elections. The impact of reform may depend on the timing of local elections and the alternatives available to voters in a referendum.

Over the next few years, the government faces considerable uncertainty over the impact that relaxing controls will have on local spending decisions and over whether local councils or central government will be blamed by voters for any resulting council tax increases. There is therefore a case to be made for retaining 'reserve' capping powers in the short run, until reforms intended to increase local accountability have bedded down.

1. Introduction

Over the last few years, central government in the UK has operated a system of extensive control over local authority current expenditure. Each year, provisional expenditure limits or ‘caps’ are laid down for each council. In 1997–98, four out of five local authorities effectively capped themselves by setting their budgets at the pre-announced ‘provisional capping limit’. In its election manifesto, the Labour Party argued that ‘local decision making should be less constrained by central government, and also more accountable to local people’. In particular, it pledged that ‘crude council tax capping should go’ but that reserve powers ‘to control excessive council tax rises’ would be retained.

The government has recently launched six consultation documents aimed at ‘modernising local government’. A central aim is to ‘enhance local accountability and reduce central government’s involvement in local tax and spending decisions’. The government will no longer announce provisional capping limits for all authorities but will retain existing powers to require councils that set ‘excessive’ council tax rates to reduce their budgets and send out reduced local tax bills. The government has also put forward proposals to make the link between local spending decisions and council tax bills more transparent to local voters and to increase the accountability of councils to local people by introducing annual elections or local budgetary referendums.

In this Commentary, we consider the arguments for local government reform. The present system of expenditure limitation or ‘capping’ is described in Section 2. Section 3 examines the theoretical case for removing central limits on local spending decisions. Section 4 describes the government’s proposals for ‘modernising local democracy’. This is followed by three sections that provide an evaluation of the government’s proposals. Section 5 considers arguments for the retention of reserve capping powers. Section 6 discusses proposed reforms to the local finance system that would make the link between local spending decisions and council tax bills clearer to local voters. Section 7 considers the arguments behind proposals to make local authorities more accountable to their electorates. Section 8 concludes.

2. What is capping?

'Capping' is the process by which central government sets down maximum limits or 'caps' on the budget that each local authority is allowed to set. Originally introduced as a selective method of restraining the expenditure of a small number of 'overspending' councils by the 1984 Rates Act, capping limits now dominate the local budgetary process. In 1997–98, over 80 per cent of local authorities in England and Wales set budgets that were at or within 0.1 per cent of the provisional capping limit laid down by central government the previous November (CIPFA, 1997).

Capping limits take the form of a maximum allowable year-on-year increase in budgets for each council according to generalised rules which may vary in their severity by class of authority or by the extent to which a local council budgets in excess of central government's assessment of its spending need. This is known as standard spending assessment (SSA). In 1992–93, for example, the maximum increase in spending permitted by the capping rules was smaller the greater a council's budget was relative to SSA, as shown in Box 2.1.

In some years, the rules used to calculate provisional capping limits have varied between types of councils, allowing larger spending increases by those councils that provide certain local services. In 1995–96, for example, councils that set budgets between 5 and 10 per cent above their SSA were allowed a maximum increase in spending of 1.5 per cent if they were a Police Authority, 1.25 per cent if they were an Inner London Borough or a Fire Authority, and 0.5 per cent if they were any other type of council.

During the early 1990s, announcements of extra government cash for particular priority services such as education did not always translate into higher spending at the local level because councils were already setting their budgets at cap. Since 1996–97, those councils responsible for providing certain key services have been allowed to 'passport' any increase in central funding into a more generous capping limit. In 1996–97, for example, Police Authorities were allowed to increase their budgets by the maximum of 3.5 per cent or the increase in their SSA, whilst Shire District Councils, which are responsible for

Box 2.1. Criteria for determining the capping limits in 1992–93

Each authority was allowed a nominal budget increase of:

- 6½ per cent as long as it led to a budget below SSA;
- 4½ per cent as long as it led to a budget below 5 per cent above SSA;
- 2½ per cent as long as it led to a budget below 10 per cent above SSA.

An authority that budgeted at more than 12½ per cent above SSA would have to cut spending by:

- a cash freeze as long as it led to a budget below 30 per cent above SSA;
- a 5 per cent nominal cut as long as it led to a budget below 60 per cent above SSA;
- a 10 per cent cut in nominal budget.

Source: Department of the Environment Press Release PN49, 23 January 1992.

Table 2.1. Percentage of councils setting budgets below/at/above provisional capping limits

	<i>Spending relative to provisional capping limit</i>		
	Below	At ^a	Above
1991–92	78.0%	19.0%	3.0%
1992–93	44.9%	52.9%	2.2%
1993–94	29.6%	69.5%	0.9%
1994–95	49.9%	49.5%	0.6%
1995–96	30.2%	67.7%	2.0%
1996–97	22.7%	76.0%	1.3%
1997–98	17.5%	81.8%	0.6%

^aAt cap' is defined by a council setting its budget within 0.1 per cent of its capping limit.

Source: CIPFA, 1991 to 1997; House of Commons Library, 1997; authors' calculations.

a range of minor services, were only allowed a 0.5 per cent increase in their budgets.

Table 2.1 shows the proportion of councils that have budgeted below, at and above their limits in each year since provisional capping limits were first set for all local authorities in 1991–92.¹ In that year, councils were not subject to the capping rules if they set budgets below £15 million. In practice, this is the same as giving these councils an expenditure limit of £15 million. Since then, a half or more of councils have effectively 'capped themselves' each year. Although local authorities remain free to set budgets that exceed the 'provisional capping limit' announced by central government the previous November, very few have done so.

Recent experience suggests budgeting in excess of the provisional capping limit is a risky strategy. Unless central government accepts the authority's case and raises the legally enforceable cap limit above the provisional figure, councils incur the additional costs of rebilling their local taxpayers. Those councils that have budgeted above their provisional capping limit in recent years have done so with mixed success. Box 2.2 illustrates the procedures by which council budgets can be formally capped. In 1997–98, of the three councils that set budgets above their capping limit, Warwickshire's proposed budget was accepted whilst Oxfordshire and Somerset were required to set a lower budget and send out new council tax bills to local residents (House of Commons Library, 1997).

The impact of capping on local spending decisions is far greater than a simple analysis of how many local councils set their budgets at cap would suggest. On aggregate, spending by local councils in 1997–98 was just 0.3 per cent below the maximum permissible if every single local authority set its budget at the centrally determined cap.² This is because many of the councils that continue to set their budgets below the level of spending permitted by their provisional capping limits are Shire District Councils, which have a limited range of spending responsibilities. Larger proportions of the councils responsible for more strategic services (e.g. education, social services and transport), such as Metropolitan Districts and Shire Counties, have been budgeting at cap. Almost all of the single-service authorities that have been established to provide police or fire services

¹Spending by small parish councils and the Metropolitan Police has always been exempt from expenditure limitation.

²Source: CIPFA, 1997.

Box 2.2. The sequencing of the capping process, 1991–92 to 1998–99

November

The Secretary of State announces provisional capping limits and grant allocations for all local councils. These tell each council how much grant it will receive and the maximum budget it can set, effectively determining its maximum council tax rate.

March

Councils finalise their budgets and send out council tax bills. Budgets can be set below, at or above provisional capping limits.

April

Financial year starts.

April or May

The Secretary of State announces final expenditure limits. If a council has set a budget that exceeds the provisional capping limit, the proposed budget may be accepted, or the council may be required to reduce its budget to the provisional limit, or a limited increase above the provisional limit may be allowed. Unless the council budget is accepted in full, councils have to rebill residents at their own cost. Councils may appeal against this decision.

June

The Secretary of State considers any appeals against his decisions and capping limits are passed by the House of Commons.

Table 2.2. Number of councils budgeting at, below or above provisional capping limits, 1997–98

	<i>Spending relative to provisional capping limit</i>			<i>Total</i>
	<i>Below</i>	<i>At</i>	<i>Above</i>	
Inner London Boroughs	9	3	0	12
Outer London Boroughs	5	15	0	20
Metropolitan Districts	2	34	0	36
English Unitaries	0	27	0	27
Welsh Unitaries	3	19	0	22
English Shire Counties	3	29	3	35
English Shire Districts	57	203	0	260
Police Authorities	1	40	0	41

Source: CIPFA, 1997.

have also set their budgets at cap, meaning capping limits are effectively applying to individual service budgets in each local area rather than simply to local spending on aggregate. The breakdown of the numbers of each type of local council that budgeted below or at their limits in 1997–98 is shown in Table 2.2.

3. The case against capping local spending

Pressure to relax the capping regime has moved up the political agenda in recent years as a result of both the large number of councils now constrained by capping rules and concerns over the impact that this large-scale replacement of local decision-making by central dictat may have had on the quality of local governance. Of course, in the absence of reforms to ensure that local tax and spending decisions are both economically efficient and responsive to the wishes of local people, the problems caused by excessive central control over local authorities need to be weighed against those that might occur if neither central government nor local voters exercised effective influence over local council decisions.

Universal or 'crude' council tax capping is likely to be inferior to a local finance system that ensured that councils were genuinely accountable to their local electorates, for a number of reasons. First, capping reduces the flexibility of local authorities to match service provision to the wishes of local people. Second, capping might encourage the excessive use of charges for council services as opposed to tax finance. This may have important distributional implications. Third, capping may damage the health of the local democratic process by restricting an important element of competition between local parties and confusing voters as to whether central or local government is responsible for the quality of local services. Fourth, the design of the capping arrangements might actually encourage some authorities to spend 'up to cap' to maximise their future budgetary room for manoeuvre. Fifth, capping prevents the system used to allocate grant to local authorities from being updated to reflect current demands on local services. We explore each argument in turn.

3.1 Reduced flexibility of local service provision to local preferences

One of the main reasons that local authorities exist is to allow variations in the preferences of local communities to be reflected in the level and scope of provision of local public services (Phillips, 1994). Individuals in each local area can collectively decide what level of public services they would like to see provided, taking into account the impact of higher local tax bills on their household's own spending power. As long as councils respond to the wishes of local people and both the benefits of service improvements and the costs of paying for higher spending accrue solely to local residents, decentralised decision-making should encourage an economically efficient level of service provision in each local area (Foster, Jackman and Perlman, 1980). Placing central limits on the amount of public spending local communities can vote for and are willing to pay for only makes sense in the presence of externalities — when some of the costs or benefits of local spending accrue to non-residents who do not have a vote in local elections. In such cases, it is more effective to alter the price individuals or local communities have to pay to consume a good than to arbitrarily limit that spending. Placing central limits on local tax-financed spending is similar to rationing an individual's consumption of a private good such as clothing or heating and is economically inefficient because it prevents individuals or local communities from choosing a quality of local

service for which they would be willing to pay the full economic cost through higher local tax bills.³

3.2 Suboptimal financing of spending

Since capping limits only cover that part of local spending financed by grants and tax receipts, extensive capping may lead to too great a reliance on the only other source of finance available to councils — user charges. Assuming that an unconstrained authority will choose the optimal combination of tax and user charge finance, capped authorities may choose to raise user charges beyond the unconstrained optimal. Raising revenue from user charges is likely to have different distributional effects from raising the same amount of revenue from the council tax, both across individuals and between local areas.

The potential revenue that could be raised from fees and charges varies considerably across authorities. Councils are not allowed to charge for many aspects of their most important services such as education. Most local councils have little potential to raise substantial sums of money from the remaining services (Chandler and Turner, 1997) but some local councils could raise substantial revenues from charging for services such as car parking, leisure and tourism. This may be particularly attractive when such charges can be raised from individuals who do not live in the local area. In 1997–98, Inner London Authorities raised an average of £325 per person compared with £140 per head in Shire England and Wales. Even within Inner London, there is considerable diversity, with revenue from user charges ranging from £40 to £680 per head (CIPFA, 1997).⁴

Increased reliance on non-tax sources of finance can either be explicit, such as increasing charges for car parks and sports centres, or less direct, such as pushing more of the costs of providing school books onto parents. Schools, in particular, may vary considerably in their capacity to attract additional ‘top-up’ funding according to the socio-economic characteristics of local parents. Whilst individuals who can afford to may be able to supplement public provision by purchasing some services from the private sector, these may not be seen as perfect substitutes, especially when the services have a significant public good element and are not just top-up expenditure. These differences in the revenue-raising capacities of different local councils may mean capping constraints have a differential impact on local service provision for reasons that have little to do with local needs or the preferences of local voters.

3.3 Political competition

Local councils, like all economic agents, can be expected to pursue their own interests subject to the constraints within which they operate. An important check on the behaviour of councils and all other elected bodies is their prospects for re-election. As long as the local electoral system works effectively, deviation from the set of policies that would attract public support in the local area raises the possibility that incumbent politicians may be removed from office at the next election.

³Although councils can temporarily avoid the spending consequences of being capped by budgeting to run down reserves, such an approach cannot be sustained in the longer run.

⁴Most types of charges, other than income-related charges for residential care for the elderly, are not reflected in SSAs.

This electoral constraint may be undermined if there is confusion over whether responsibility for the quality of local services should lie with central or local government. If local service standards largely reflect central decisions over grant settlements and capping limits, rational voters may treat local elections as a referendum on national government. This may effectively remove much of the electoral constraint on incumbent councils controlled by parties that are in opposition at the national level. By contrast, if central controls are poorly understood, incumbent councils may be punished for spending decisions that are largely outside their control.

An important element of the process of political competition at the local level is the ability of opposition parties to propose a package of higher or lower levels of local taxation and spending than those chosen by the incumbent council. Over recent years, a majority of the incumbent councils facing elections have already been setting their budget at the provisional capping limit, preventing opposition parties from proposing higher levels of spending on local services overall. This removes an important dimension of political competition, with parties only being able to debate over the allocation of spending between budgets.⁵ In cases where capping limits are particularly tight, opposition parties may also find it difficult to credibly propose lower spending and reduced council tax bills. In 1997–98, all three main political parties on Oxfordshire County Council proposed budgets in excess of the council’s provisional capping limit.

3.4 Incentives to increase spending if close to cap

The present capping regime has undoubtedly restricted the spending of many local authorities but there is a strong possibility that it has encouraged some councils to spend ‘up to cap’. Each November, the government sets provisional capping limits which allow each council to increase spending by a given percentage compared with its *actual* level of spending the previous year,⁶ with tighter limits applying to councils that have the highest spending relative to their SSA. This means that councils can often increase their budgetary freedom next year by increasing their spending up to the capping limit this year. Table 3.1 compares two hypothetical councils, each with a SSA of £100 million with a capping system that allows councils to increase spending by up to 2 per cent per annum as long as this leaves their budget less than 10 per cent above SSA. Authority A, by spending below the provisional capping limit in year 2, ends up with a lower provisional capping limit in year 3 than authority B. By spending up to the provisional capping limit in year 2, authority B can increase its room for manoeuvre in year 3, when it might anticipate higher spending needs. Hence, despite the potential welfare costs involved in reducing the responsiveness of local spending to variations in local preferences, it is by no means obvious that the present capping regime actually manages to restrain *aggregate* local authority expenditure below the level that it would be in a less constrained environment.

⁵House of Commons Library (1997) stated that ‘This argument [that capping damages the political process] has been advanced by Conservative councillors amongst others’.

⁶The previous year’s expenditure is adjusted for any changes in service responsibilities between the two years.

Table 3.1. Incentives to spend up to cap^a

	SSA	Spending, year 1	Cap limit, year 2	Spending, year 2	Cap limit, year 3
Authority A	£100 m	£105 m	£107.1 m	£106.0 m	£108.1 m
Authority B	£100 m	£105 m	£107.1 m	£107.1 m	£109.2 m

^aThis simplified example assumes a constant SSA of £100 million and a capping system that allows local authorities to increase spending by up to 2 per cent per annum as long as their budgets remain less than 10 per cent above SSA.

Such problems could obviously be avoided if caps in each year depended solely on either SSAs or a level of spending at some fixed date in the past, but each of these alternatives would be problematic. Caps based solely on SSAs might lead to excessive year-on-year adjustments in budgets for councils that spend well above SSA or that face large annual changes in their SSAs. Caps based on spending levels at a fixed date in the past lead to arbitrary reallocations of spending power for councils that chose an atypical level of spending in that year.

3.5 Outdated grant allocation system

The presence of universal council tax capping within the local finance system has effectively prevented any generalised updating of the formulas used to allocate central grant to individual local authorities. Grant payments are designed to introduce an element of horizontal equity into the local finance system by equalising the Band D council tax rate that would be set by any council setting its budget equal to the amount central government thinks is necessary to provide an unspecified 'standard' level of service, known as SSA. Spending need is estimated using regression analysis which attempts to identify systematic patterns in the relationship between actual spending in each local area and various socio-economic and demographic indicators of spending need. For this process to identify the factors that drive spending needs correctly, variations in local authority spending should reflect freely chosen spending choices. If, instead, local authorities set their budgets at cap, and caps, like payments of central grant, are based largely on SSAs, council spending decisions may not fully reflect local spending needs that are not reflected in the current formulas (Duncan and Smith, 1995). This would both compromise the use of regression techniques to update the formulas currently used to distribute grant to local authorities and mean that it is difficult to determine exactly how out of date the formulas have already become. Eventually, it will be necessary to choose between extensive capping and maintenance of the current regression analysis method for estimating the SSA formulas since the present system of distributing grant largely relies on data that are already eight years out of date.

Any problems caused by excessive central control of the activities of local councils obviously need to be weighed against those that might emerge if these controls were relaxed but councils were not genuinely accountable to their electorates. In the following sections, we examine the government's proposals for making more selective use of capping powers and increasing the accountability of councils to local people.

4. The government's proposals

The Labour government has launched a consultation process seeking views on its proposals for new legislation to modernise local government. A total of six consultation documents have been published containing proposals on local democracy and community leadership, improving local services through best value, a new ethical framework, improving local financial accountability, business rates and capital finance (Department of the Environment, Transport and the Regions, 1998a–f). A central aim of the proposals is to strengthen 'local accountability for levels of council tax, hand in hand with a reduction of central government's involvement in decisions on local tax levels'. By the end of this parliament, the government intends that councils 'will involve local people more in decision making' and 'respond more closely to the views of local people'. In this section, we describe the government's proposals on capping, the local finance system and local accountability. Some of the specific policy issues on which the government is currently consulting are summarised in Box 4.1.

4.1 Proposed reforms to capping powers

The Labour Party's election manifesto pledged that a Labour government would end 'crude and universal capping' but retain reserve powers to 'limit excessive council tax increases'. Under the government's current proposals, provisional capping limits will no longer be announced prior to councils setting their budgets. Once local budgets have been determined, the government will make use of existing legislation to cap any that it deems 'excessive'. Councils whose budgets have been capped will be required to make budget reductions and send out new council tax bills early in the new financial year.

Box 4.1. The consultation process

Some of the policy areas in which the government has invited views as part of the current consultation process are:

- Whether the present system of annual reviews of the SSA formula should be replaced with one that involves notifying local councils three years in advance about the intended total amount of external finance and its distribution between councils.
- How the present system of using grant to equalise the needs and resources of individual authorities should develop in future.
- How 'budget and Council Tax decisions can be made more transparent'.
- The 'principles and practicalities' of referendums on proposed council budgets.
- Whether local elections should be held before the council's budget has been determined.
- Whether councils should be liable for some or all of the impact that their spending decisions have on council tax benefit expenditure.
- The circumstances under which reserve capping powers should be used and how they should operate.

The Department of the Environment, Transport and the Regions invites submissions on these and other matters by 1 June 1998.

The government also proposes new legislation that would increase the number of factors that it can take into account when determining which councils should have their budgets capped. These might include taking account of the pattern of budget changes over a number of years, allowing budgetary reductions to be phased in over more than one year or exempting certain councils from being capped. Exemptions might be extended to those councils whose proposed budgets have been approved by a local referendum or to councils that are deemed to have a strong track record in the delivery of 'best value'.⁷

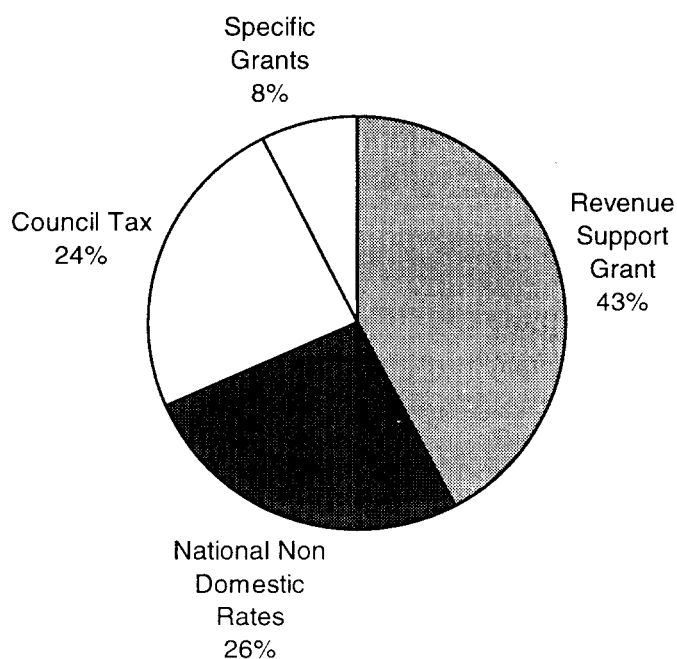
4.2 Proposed reforms to the local finance system

Four sets of reforms to the local finance system are considered — reforms to the council tax, council tax benefit, the system used to distribute grant to local councils and non-domestic rates. These represent the key sources of revenue for local authority current expenditure, as shown in Figure 4.1.

Reforming the council tax

The government argues that the design of any system of local taxation must balance two competing objectives — *simplicity* (there should be a clear link between local spending decisions and local tax bills) and *fairness* (local tax bills should reflect individual

Figure 4.1. Sources of revenue for local authority current expenditure, 1997–98



Notes: Figures are for England and Wales. SSA reduction grant has been included with revenue support grant since both are unhypothecated general grants to fund council spending. Police grant makes up the largest component of specific grants.

Source: CIPFA, 1997.

⁷'Best value' is a set of proposals to make local councils accountable for the quality and efficiency of their local services. Authorities will be required to publish Local Performance Plans which 'will spell out the targets and show how they are to be met'.

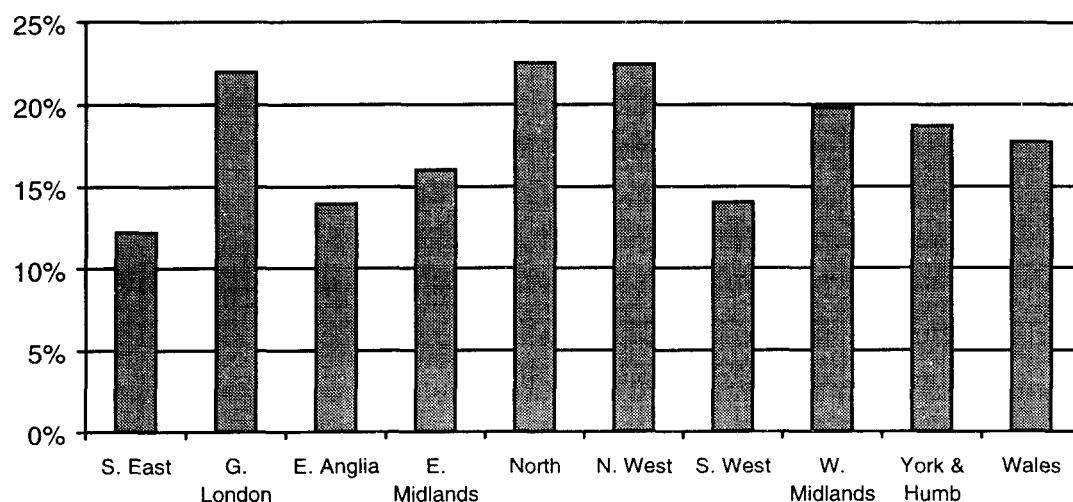
circumstances). The government appears unconvinced by arguments that the structure of the council tax should be reformed, arguing that the current balance between simplicity and fairness is broadly correct. Whilst accepting the argument that a general revaluation of properties will be required at some stage (council tax bands are still determined on the basis of property values in April 1991), the government states it has no plans for a revaluation.

Reforming council tax benefit

At present, central government refunds 95 per cent of the council tax benefit payments that councils make to local residents. Whilst an extra £1 per head of council spending adds £1 per head to local tax bills, roughly 20 per cent of the increase in gross council tax bills is paid for by central government through the social security system. The proportion of gross council tax bills paid for through the council tax benefit system varies considerably between local areas, depending on both the extent of economic deprivation and council tax rates, both of which influence benefit entitlement. Figure 4.2 shows a breakdown by region of the proportion of gross council tax accounted for by council tax benefit. Council tax benefit contributes over 20 per cent of gross revenues from the council tax in the North, North-West and London regions compared with less than 15 per cent of revenues in the rest of the South-East, East Anglia and the South-West. These variations are much greater at the level of individual local authorities.

The government is considering reforms to the funding arrangements for council tax benefit though not to individual entitlements to benefit. One option is for the government to only compensate councils for the level of council tax benefit to which residents would have been entitled had councils set their budgets at SSA. Any additional benefit payments would have to be paid for by other local residents through higher council tax bills. To prevent large year-on-year changes in council tax bills, the

Figure 4.2. Percentage of gross council tax bills accounted for by council tax benefit, by region, 1997–98



Source: CIPFA, 1997.

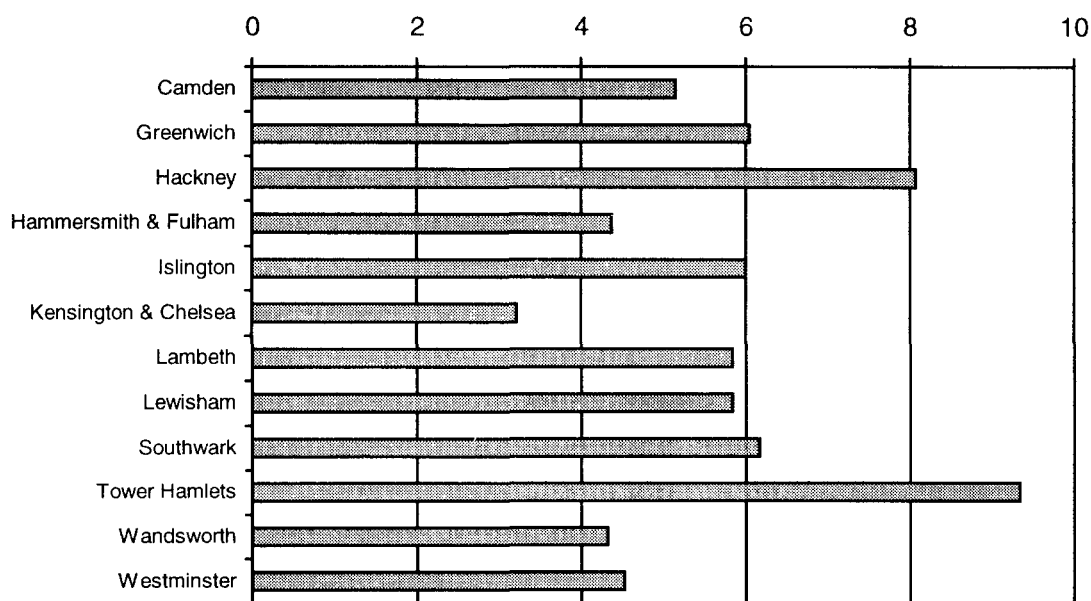
government would consider phasing the introduction of the new arrangements over a number of years.

Reforming revenue support grant

Council tax pays for roughly 24 per cent of local authority expenditure on average but for 100 per cent of any expenditure at the margin. This means that, on average, a 1 per cent increase in local spending leads to a 4 per cent increase in local tax bills. Whilst this system generates a clear link between local spending decisions and the resultant rise in council tax bills, the heavy dependence of local councils on external support means that council tax bills are also highly sensitive to changes in the grant system. From April 1999, the government proposes to produce a 'more stable and predictable grant system' by freezing the formulas used to allocate grant to local authorities for three years, reducing the year-to-year uncertainty in council funding arrangements.⁸

The government voices some concern that variations in council tax rates can arise when councils spend the same in relation to SSA simply because of different 'gearing ratios'. Figure 4.3 shows the variation in gearing ratios for Inner London Authorities in 1997–98. A £1 per head rise in spending leads to a £1 per head increase in council tax bills in all areas, but differences in gearing ratios mean that a 1 per cent rise in spending above SSA would increase council tax bills by 3.2 per cent in Kensington and Chelsea but by 9.3 per cent in Tower Hamlets. This may make it difficult for local voters to compare the package of local service provision and tax bills provided by their council with those available in neighbouring areas. One way of reducing this variation in gearing ratios

Figure 4.3. Gearing ratios for Inner London Authorities, 1997–98



Source: CIPFA, 1997.

⁸Annual receipts of revenue support grant would still reflect changing demands on local services, such as changing pupil numbers, but the formulas used to relate client numbers to SSA would be fixed.

would be to equalise the resource base of local authorities at every level of spending rather than at only one level.

Reforming non-domestic rates

Since 1990, central government has determined a single rate poundage, known as the uniform business rate (UBR), which is paid by businesses in all local areas.⁹ The government is consulting on the possibility of returning to some element of local variation in setting non-domestic rates, although the present pooling arrangements would remain for the UBR. This would effectively become the business rate at standard spending (BRSS). Whilst portrayed as a national tax with a small local supplement, such a proposal is equivalent to a return to local rate-setting powers with resource equalisation at SSA. This is effectively how the council tax system works at present.

4.3 Proposed reforms to enhance accountability

Some councils in England, including London Boroughs and Shire Counties, currently face an ‘all-out’ election for all seats on the council once every four years. In other councils, including all of the Metropolitan Districts, one-third of council seats come up for election in each of three years in every four. Within the two-tier structure introduced by the 1974 local government reorganisation, most voters had the opportunity to vote in local elections every year, with lower-tier elections in three years out of four and elections to the upper-tier authority in the fourth year.¹⁰ Table 4.1 summarises the voting system used by each type of council within England.

Table 4.1. Present electoral arrangements in England

Type of council	Electoral arrangements	Election years
County Councils	Full council elections Single-member electoral districts	1997, 2001
London Boroughs	Full council elections One to three members per ward	1998, 2002
Metropolitan Districts and 12 Shire Unitaries	Elections by thirds Wards have three members	1998, 1999, 2000, 2002
88 Shire Districts and 5 Shire Unitaries	Elections by thirds Some wards have less than three members	1998, 1999, 2000, 2002
28 Shire Unitaries and 149 Shire Districts	Full council elections All wards have three members	1999, 2003

Note: The table abstracts from any transitional arrangements in the newly established Unitary Authorities in Shire England.

Source: Department of the Environment, Transport and the Regions, 1998c.

⁹A different UBR applies in Wales from the one that has been set for Scotland and England. The UBR was introduced in Scotland in 1995, five years later than in England and Wales. Rate poundages continue to vary between local jurisdictions in Northern Ireland.

¹⁰Voters in wards with less than three members would have the opportunity to vote in local elections less frequently than those in three-member wards.

The government is keen to make local authorities more responsive to the wishes of local people, through tightening electoral constraints via more frequent local elections, via setting targets to improve the turn-out in local elections or via experimenting with alternative forms of democracy such as budgetary referendums.

The proposals for reform raise many interesting issues. The introduction of annual elections would raise the importance of the timing of elections relative to when local budgets are set. The likely consequences of introducing local budgetary referendums would depend on whether they were advisory or binding, whether they could be triggered by local voters, central government or councils themselves, and whether only incumbent councils or a range of local political parties should be able to place options on the referendum.

We evaluate the government's proposals in the following three sections. Section 5 considers reforms to capping powers, Section 6 examines proposals to reform the local finance system and Section 7 discusses proposals to increase the accountability of local councils to their electorates.

5. The retention of reserve capping powers

The government has proposed to end the practice of setting provisional capping limits for all councils prior to local budgets being determined. Instead, existing primary legislation will be used to require councils that set 'excessive' council tax rates to reduce their budgets and send out new tax bills to local residents. In this section, we consider the case for retaining reserve capping powers.

The government justifies the retention of reserve capping powers on the basis that local public spending is 'of considerable importance within the Government's plans for the delivery of its goals for the economy' (Department of the Environment, Transport and the Regions, 1998a, Section 2.7). Control of local spending, which accounts for around a quarter of public spending, has been seen as critical for planning and controlling general government expenditure and the public sector borrowing requirement (PSBR) for at least the last 18 years.¹¹ But only a small proportion of this spending is financed through means over which local authorities have any control. Central government directly controls the level of external support to local authorities, including revenue support grant, specific grants and revenues from non-domestic rates. The only source of tax revenues under local control is the council tax. Local authority self-financed expenditure (LASFE), which has no direct impact on the PSBR, was £13.6 billion in 1997–98, representing 4.3 per cent of general government expenditure.¹² The bulk of this revenue is accounted for by the revenues local authorities would be expected to raise from the council tax if they simply set their budgets at the centrally determined SSA. Within England and Wales, aggregate local authority expenditure exceeds aggregate SSA by £2.5 billion, less than 1 per cent of public spending.

Accepting the argument that the government has a legitimate interest in controlling local authority self-financed expenditure does not, in itself, provide sufficient reason to retain such a blunt policy instrument as capping. The justification for retaining reserve capping powers depends on either the local finance system failing to provide local councils with the correct incentives to make economically efficient spending decisions or local councils not being properly accountable to their electorates. On this basis, it may be relatively easy to defend the retention of capping powers at present. But the economic case for the retention of capping powers may be less obvious once proposed reforms to the local finance and electoral systems have bedded down. Whilst a selective capping system is likely to reduce the severity of the side-effects associated with the present capping arrangements by allowing a large number of councils to operate in a relatively unconstrained environment, it will not eliminate them altogether. Even if reserve capping powers were never exercised, their retention introduces considerable uncertainty into the local finance process as local councils attempt to estimate how much they can spend

¹¹Barlow (1981) provides a short survey of the debate over central control.

¹²Source: HM Treasury, 1998. Although LASFE counts towards the control total — the definition of spending used as the basis of planning and controlling public expenditure since 1993 — this has not always been the case. The revenue raised through local taxes was not counted as part of the planning total between 1990 and 1993.

without attracting the cap, entering into a budgetary game of 'chicken' with central government.¹³

A stronger case can be made for retaining central controls during the period of transition to a more relaxed local finance system. Heightened uncertainty may temporarily reduce the accountability constraints on local authorities and allow part of the blame for any tax rises to be passed on to central government.¹⁴ The uncertainty and political risk for the government in relaxing capping limits come from a number of sources:

- **'Desired' local council expenditure is unknown.** The aggregate level of local spending that would occur if all authorities were free to set their own budgets might be considerably higher than at present, although certain councils may currently be spending 'up to cap'. This uncertainty presents risks for central government if it is not fully confident it will escape the blame for higher council tax bills resulting from local spending decisions.
- **Catch-up effects.** Since many councils have now budgeted at cap continuously for a number of years, there may be a one-off 'catch-up' to their desired time path of expenditure. This could lead to a significant jump in local authority spending and local tax bills in the first year of a relaxed regime. The dangers of this 'catch-up' may have been exaggerated if the balance between public and private spending in a local area shows persistence over time. Lower spending and lower council taxes resulting from capping in the past may have encouraged patterns of private consumption that reduce pressure for higher public spending now. Public support for higher local spending appears weak if the spending is to be paid for through higher council tax bills. Emmerson, Hall and Brook (1998) found that only 21 per cent of respondents to the 1996 British Social Attitudes Survey would prefer to have increased local spending financed through an increase in the level of council tax.

During the uncertainty of the transitional period, the government may have cause to fear that it will take some of the blame for any council tax increases that result from higher local spending. Plans to retain reserve capping powers can be seen as an insurance policy against the political repercussions of allowing substantial local tax rises in a single year. But it is possible that the retention of reserve powers could, in itself, increase uncertainty and encourage *higher* spending. Councils might anticipate that the government could only credibly apply retrospective budget reductions to a small number of councils in any one year, but could choose to reintroduce provisional capping limits for all councils the following year. This might tempt councils to 'make hay whilst the sun shines' in anticipation of a clamp-down later. In 1990, the most recent year in which provisional capping limits were not announced prior to local budgets being set, large increases in budgeted spending led to 21 authorities having their budgets capped. They were obliged to rebill local households even though the financial year had already started. This was a

¹³The government does not appear to be considering a return to the selective capping system that operated during the 1980s in which councils that set 'excessive' budgets in one year had limits applied to the budgets they could set the following year. Whilst avoiding the last-minute budget changes and rebilling costs associated with the government's current proposals, this system can lead to considerable year-to-year instability in the budgetary process.

¹⁴Department of the Environment (1991) used a similar argument that 'local accountability will inevitably be clouded by changes to the local finance system' resulting from the introduction of the council tax in April 1993.

key reason why provisional capping limits were announced for the following year, introducing the era of universal capping.

Government proposals to increase the discretion with which capping powers can be exercised are a cause for concern. Whilst increased discretion might enable central government to make less 'crude' capping decisions, it is likely to increase uncertainty and leave the capping process open to charges of political manipulation. It also appears strange that proposals to relax controls only on those councils that are 'trusted' to follow central government's agenda are included within a package of reforms intended to increase 'local decision making'. During the transition period, relaxing controls first on those councils that can demonstrate they are responsive to the needs of local people might have its attractions. Such an approach might encourage greater decentralisation by reducing the risk for central government and by providing additional incentives for other councils to reform. But, in the absence of widely accepted and uncontroversial measures of performance, it could also provide a mechanism for maintaining tight control over local council activities in the longer run.

6. Improving financial accountability

In the absence of capping controls, local accountability is unlikely to be sufficient to ensure that local councils make economically efficient expenditure decisions unless two conditions are met. First, local voters would have to pay the full economic cost of higher local spending through higher council tax bills. Second, the link between local spending decisions and council tax rates would have to be clearly observable to local voters. In this section, we assess the government's proposals to increase local financial accountability against these two criteria.

6.1 The cost of higher local spending

The case for central intervention over local authority self-financed expenditure largely rests on the existence of externalities — consequences of local decisions that have repercussions outside the local area in which they are taken. Standard economic theory suggests that when economic agents produce more of a good than is socially optimal — whether pollution, congestion or, indeed, local authority spending — it is because they face too low a price for it. In the environmental context, one solution to this problem is to tax the production of the good — the 'polluter pays' principle (Pigou, 1946). In terms of the local finance system, the equivalent solution is to raise the 'tax price' of higher spending.

The argument that councils and therefore local voters faced too low a tax price for local spending decisions carried considerable credibility in the context of the local finance system of the 1980s (see Department of the Environment (1986)). During this period, only a proportion of the cost of any additional local spending was paid for by local voters, the rest being met from two sources:

- **Central government.** Full equalisation of the tax base available to local councils meant that higher spending attracted additional central government grant for many councils, especially those with limited resource bases.
- **Locally varying business rates.** Higher spending was partly funded by higher business rates where the ultimate burden of the tax is unclear and may be borne by individuals who live outside the local area and hence are not allowed to vote in local elections.

If voters were paying too low a share of the cost of increases in council spending through their local tax bills, it may not have been in their interests to punish 'overspending' councils through the ballot box. Councils seeking re-election would have faced incentives to provide a higher than economically efficient level of local services.

Reforms to the grant system and the 'nationalisation' of business rates in 1990 mean that this argument holds less force today since the full cost of higher local spending is borne by council tax bills. But a case could be made for the tax price of local spending still being too low if local spending decisions have 'spillover' effects on 'national policy objectives'. This may be through the impact of council tax rises on the economy generally or on central government's own budget. We consider each in turn.

Impact of local decisions on the national economy

Council tax increases raise the cost of living as measured by the retail price index (RPI), which may have wider implications for the national economy as well as increasing the cost of social security benefits to central government, which are increased annually in line with the RPI. The impact of council tax rises on the RPI should not be exaggerated — it would take a 33 per cent increase in council tax bills to increase the RPI by one percentage point, and a one-off increase in council tax bills would only directly affect the rate of inflation for one year.¹⁵

If higher local spending has a detrimental impact on the achievement of national policy objectives in this way, efficient local decision-making requires increases in local spending to trigger reductions in central grant so that local taxes would rise by more than the direct costs of improved local service provision. This would force local councils to take account of the negative externality they were imposing on the national economy. This central 'tax' on higher local spending should, in principle, achieve the same degree of control over aggregate local authority expenditure as capping but would allow higher spending in those areas that would value it most. On the other hand, increasing the complexity of the grant system might reduce the stability or transparency of the link between local spending decisions and council tax bills.

Impact of local spending on central government's own budget

A second argument for central control over local authority self-financed expenditure is the direct 'feedback' effect of higher local spending on central government's own expenditure on council tax benefit and hence on the PSBR. On average, council tax benefit, which is received by some 5.6 million households (Department of Social Security, 1997), covers roughly 20 per cent of gross council tax receipts. Since higher council tax bills bring more people into the benefit system, the proportion of any marginal spending paid for by the government would be even larger. This 'spillover' effect of local decisions on central government's own budget means councils may choose a higher than economically efficient level of spending because local people do not bear the full cost of higher spending. These pressures may be particularly strong in areas where a significant proportion of residents qualify for council tax benefit.

One method of tackling this problem would be to restrict payments of council tax benefit to the level that would have been paid if each council set its budget at SSA. This would mean that benefit recipients also faced a 'tax cost' of voting for higher local spending. Between 1990 and 1993, maximum community charge benefit only paid 80 per cent of poll tax bills, with 20 per cent of a 'standard' bill refunded through the income support system. This placed considerable local tax burdens on poorer households living in high-tax areas and was associated with significant collection costs and compliance problems. The government has stated that it has no plans to reduce eligibility for council tax benefit in this way.

¹⁵Council tax has a weighting of 30/1000 in the 1997 RPI. Therefore a 33 per cent rise in council tax bills will lead to a $(1/3) \times (30/1000) = 1$ point increase in the RPI. Recent interest in simply taking council tax bills out of the basket of goods and services used to calculate the RPI appears to be a bizarre and unjustifiable solution to this problem. Of course, higher inflation also increases government revenues.

The government is considering alternative proposals that would make local councils bear the burden of the higher payments of council tax benefit that result from increased local spending. Even if central government only refunded the benefit that would have been paid out had all councils set their budgets at SSA, councils need not lose resources on average, since the average excess of benefit over benefit paid at SSA could be included within revenue support grant. The important difference would be that higher benefit caused by higher spending increased council tax bills at the margin.

These proposals have two significant drawbacks. First, large numbers of local residents continue to face no increase in their net council tax liability, whatever level of local spending they vote for. The experience of the community charge suggests it may be difficult to get around this problem. Second, for any given level of spending, a household's tax bill will depend on the degree of deprivation in the local area. At present, an extra £1 per head of local spending adds £1 per head to local tax bills, some of which is paid by central government through the benefit system. Under a new system, £1 per head of extra spending would cost £1.25 per head in an area in which 20 per cent of households were on full benefit but £1.50 per head if a third of households were on full benefit. On the assumption that the marginal benefit contribution to higher local spending is equal to the average, the cost of £1 per head of extra spending amongst Inner London Authorities would vary from £1.17 in Westminster to over £2 in Hackney.¹⁶ This might discourage those not in receipt of benefits from living in areas with considerable socio-economic deprivation which may not be socially desirable.

6.2 Transparency and stability in the local finance system

Proposals to retain reserve capping powers may be associated with the widely held perception that previous attempts to restrain local spending by increasing the share of the burden of paying for higher spending that fell on local taxpayers had failed (Travers, 1986). In 1991, the Conservative government concluded that 'in practice, sharpened accountability to the electorate has not by itself provided a sufficient restraint on expenditure' (Department of the Environment, 1991). But, whilst two distinct attempts were made to increase the tax price of local spending decisions during the 1980s, it is not obvious that the cumulative impact was to discourage higher local spending. The two key elements of the local finance system were the following:

- The grant system worked to ensure that local rate poundages responded more quickly to increases in spending beyond a 'threshold' level, roughly 10 per cent above what the government thought the council needed to spend. This worked through reducing the grant paid to higher-spending councils. However, a small number of authorities had so much grant withdrawn by this system that they became 'grant-exhausted', receiving no grant from central government. Once there was no more central grant to withdraw, the cost to local taxpayers of an extra pound per head of local spending could fall dramatically, especially for residents of areas with a large non-domestic rate base.

¹⁶Authors' calculations based on figures in CIPFA (1997).

- Authorities that spent above a 'target' level were penalised by the withdrawal of grant. But, since targets were based on actual spending in the previous year and the severity of the penalties for exceeding the target was increased each year, councils may have increased spending in the current year to manipulate the target they were set, and therefore the grants penalty they faced, in future years. In addition, since penalties were not symmetric, authorities that cut spending would not receive any additional grant. They would, however, reduce their target level of spending in future, potentially reducing their future grant entitlement. This may have encouraged 'low-spending' authorities to spend up to their target in order to maximise their room for manoeuvre in future years (Smith and Stewart, 1985).

In contrast to these 'perverse' financial incentives, the current local finance system ensures that local taxpayers pay an extra £1 per head for each extra £1 per head of local spending. High 'gearing ratios', ensuring that a 1 per cent increase in local spending increases local tax bills by 4 per cent on average, are likely to act as a significant deterrent to excessive spending increases. The loss of grant to authorities in Inner London in 1995 resulted in an increase from three to 10 in the number that budgeted below cap, suggesting high gearing ratios acted as a deterrent to higher spending (Dilnot and Giles, 1996).

The government argues that 'greater local accountability depends on people understanding better the link between the council's spending decisions and the council tax bills which they face' (Department of the Environment, Transport and the Regions, 1998a, Section 4.3). During the 1980s, the link between spending decisions and domestic rates bills was opaque. Payments of grant to individual councils were highly volatile from year to year and very sensitive to the decisions of a small number of resource-rich authorities due to attempts to fully equalise the tax base of different authorities. Moreover, the introduction of the community charge in 1990 was accompanied by major reforms to the local finance system, all of which rendered the link between spending decisions and local tax bills highly complex.

The importance of stability in the local finance system for making clear the link between local spending decisions and council tax bills has implications for some of the government's other proposals. 'Freezing' the grant methodology for three years from April 1999 should help avoid large changes in council tax bills resulting from changes to the grant system. On the other hand, whilst there are many sound arguments for broadening the local tax base in the UK (Hall and Smith, 1995; Denny, Hall and Smith, 1995), a return to a locally varying element of non-domestic rates may be inconsistent with attempts to increase local financial accountability. A broader local tax base would reduce gearing ratios and weaken accountability since the final incidence of business taxes is unclear. Unless council tax bills were allowed to vary between areas simply because of differences in their non-domestic rate base, complex equalisation mechanisms would be required, generating additional complexity and instability in the local finance system.

7. Improving accountability to local electors

Reforms intended to encourage efficient local spending decisions and increase the transparency of the link between spending and council tax bills are unlikely to be successful if voters do not hold councils to account for the budgets that they set. Voters may lack opportunities to make their views felt if elections are infrequent or a single vote is insufficient to register preferences over the range of issues that local voters care about. Alternatively, voters may have opportunities to vote that they do not use because they are confused by the issues or do not think their vote will influence the outcome of the election. We consider each possibility below.

7.1 Opportunities to vote

The ability of local voters to hold their council to account may be heavily circumscribed if local elections are infrequent and are decided on a whole multitude of issues, of which the local budget is only one. Two methods of tightening the accountability constraints on local councils are therefore to increase the frequency of elections and to experiment with giving the electorate more of a say over the budget-setting process by introducing local budgetary referendums.

Annual elections

The government appears committed to the introduction of annual elections for at least some seats on each council. This will have more impact on authorities such as London Boroughs, which currently hold 'all-out' elections for all seats on the council once every four years, than on Metropolitan Districts, where one-third of seats are contested in each of three years out of every four already.

The introduction of annual elections increases the importance of the timing of elections relative to when the local budget is determined. At present, having council elections in May, shortly after council tax bills have been sent out to local residents, may tighten the accountability constraints on councils during the budget-setting process. But this system means that a newly elected council spends 11 months of its first year in office implementing the budget agreed by the previous incumbents. With annual elections, a newly elected council would face the prospect of electoral defeat when it had only spent one month in office implementing its own budgetary policies. Such a system might generate a great deal of confusion amongst the electorate, especially in highly marginal authorities.

If annual elections were to be introduced, elections could be moved forwards to January or February so that a newly elected council could set a budget within a couple of months of taking office. Winter elections may work against attempts to increase the turn-out in local elections and would probably reduce the role of elections in giving the electorate's verdict on the local budget. Alternatively, a return to the pre-1982 system of newly elected councils being able to set a supplementary budget could be considered. Since rebilling would occur once the financial year had already started, this might lead to additional tax collection and compliance costs.

Local budgetary referendums

The introduction of more frequent elections might not constrain council budgetary policies if many issues influence voting behaviour. In the United States, many states allow local councils to override centrally imposed caps if approved by a referendum of local voters (Advisory Commission on Inter-Governmental Relations, 1995). Councils could publish a 'capped' budget and one or more alternatives. Since the higher spending option would involve increased council tax bills, referendums could potentially serve as a genuine brake on any 'overspending' ambitions of renegade local authorities. Councils could be allowed to trigger a referendum in order to render their budgets immune from being capped. Alternatively, central government could test local public support for a budget it was minded to deem 'excessive' before deciding whether or not to cap a local council.

Referendums, as a form of direct democracy, differ from traditional representative democracy in that the outcome can be highly dependent on the exact question that is posed and what alternatives to the incumbent council's proposals exist. Local referendums might not be very effective as constraints on local authority spending choices if incumbent politicians were able to manipulate the framing of their proposals. Councils might be tempted to employ the so-called 'kidney-machine gambit' in which acceptance of a 'capped budget' would imply cuts that the public would clearly find unacceptable, such as 'reduced heating for old people's homes'.

Another possibility would be to allow local opposition parties to place alternative 'shadow budgets' on the referendum. This would reduce the scope for voter manipulation by incumbent councils but could result in one party running a council on the basis of a budget proposed by an opposition party. The existence of multiple options also raises the possibility that a budget supported by only a minority of the electorate could attract the most votes in a referendum. In the absence of some form of single transferable vote system, which might be highly complex and discourage participation, this could lead to the approval of a budget that the majority of voters would have preferred less than an alternative that was on offer. Whilst local budgetary referendums may appear attractive in theory, they are untested in the UK in practice and could also suffer from low turn-outs, particularly if voter fatigue sets in.

The government also proposes to experiment with alternative voting arrangements to encourage higher turn-outs in local elections. Such proposals are to be welcomed and could ameliorate concerns that more opportunities to vote could lead to voter fatigue and even lower turn-outs. The government also proposes to experiment with directly elected mayors, starting with the new Greater London Authority.¹⁷ It is hoped that the elected mayors might attract significant public interest in local government more generally, although a directly elected executive could create further confusion over the responsibilities of existing councillors.

¹⁷Department of the Environment, Transport and the Regions, 1997.

7.2 Incentives to vote

If voter turn-out is a useful gauge to the health of local democracy and the strength of the accountability constraint faced by local councils, as has been suggested in recent government statements,¹⁸ evidence of persistent and widespread voter apathy in local elections is a cause for concern. Table 7.1 shows that the average turn-out across all local authority elections between 1976 and 1995 was stubbornly and persistently low, averaging around 40 per cent of the electorate. Whilst turn-out was significantly higher in 1979, when local elections coincided with a general election, local electoral choices may have been unduly influenced by national political issues and there was a record number of uncontested seats (Rallings and Thrasher, 1993).

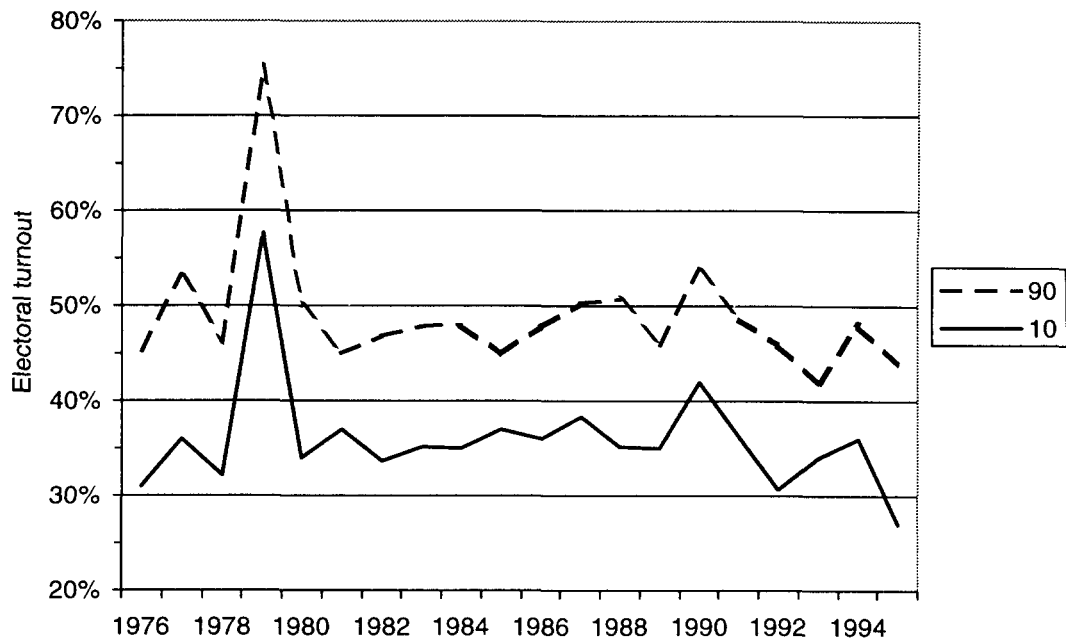
There is also a considerable variation in turn-outs between local areas. Figure 7.1 shows the turn-out achieved by the tenth and ninetieth percentiles of the councils facing election in each year, with the latter typically having turn-outs between 20 and 50 per cent higher than the former. Table 7.1 also shows the maximum and minimum turn-out in local elections each year. The maximum turn-out only exceeded 60 per cent on five occasions over the period and never between 1985 and 1995. At least one council had a turn-out of less than 30 per cent of the electorate in most years. The turn-out in the 1995 local elections for Metropolitan Districts varied from 12 per cent in Barnsley to 42 per cent in Trafford. Over the period as a whole, average turn-out amongst Metropolitan Districts was lowest in Sunderland (34 per cent) and highest in Stockport (49 per cent).

Table 7.1. Turn-out in UK local elections (per cent)

	Mean	Minimum	Maximum
1976	38.1	20.0	58.0
1977	44.3	32.0	64.0
1978	39.2	23.4	53.6
1979	66.1	42.0	82.6
1980	40.7	28.3	66.0
1981	41.9	34.0	62.0
1982	40.3	27.0	55.1
1983	41.6	26.8	57.8
1984	41.2	27.6	66.0
1985	41.2	36.0	48.0
1986	41.4	26.0	56.2
1987	44.4	28.5	57.7
1988	42.6	26.7	59.0
1989	40.0	33.0	50.0
1990	47.5	32.4	57.3
1991	42.6	26.8	58.0
1992	38.4	21.2	57.0
1993	37.2	30.0	47.0
1994	41.7	27.0	54.0
1995	37.1	12.0	53.0

¹⁸Hilary Armstrong, reported in *Local Government Chronicle*, 6 February 1998.

Figure 7.1. Tenth and ninetieth percentiles of turn-out in local elections



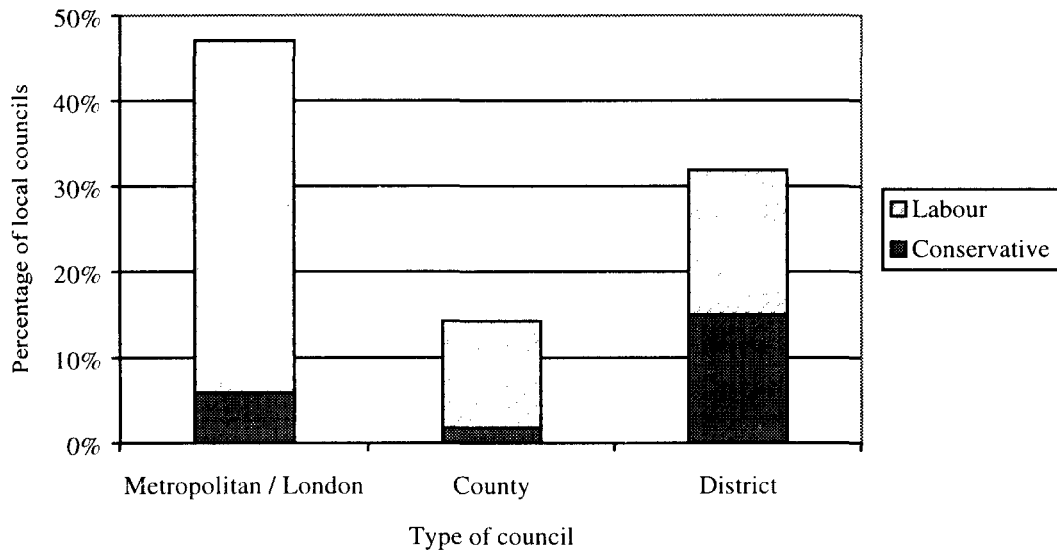
Apart from practical difficulties in getting to the polls, there are several potential explanations for such low voter turn-outs, linked to whether potential local voters care about or understand local issues and whether they think their vote can influence the local election result. We consider each in turn:

- **Don't care.** Voters are genuinely indifferent over which party controls their local council or feel that local services are dominated by decisions taken at the national political level. This issue may be particularly acute where the line of demarcation between national and local responsibilities is unclear or when council budgets are set at a centrally determined cap.
- **Don't understand.** Voters find the issues involved too complex or finely balanced to come to a decision. There is some evidence to suggest that voters are confused over which services are the responsibility of their local council and what percentage of local services are financed through their council tax. For example, 30 per cent of the respondents to a question asking whether councils got more money from central grants than from the council tax in the 1996 British Social Attitudes Survey said that they did not know and a further 31 per cent gave an answer that was clearly wrong.¹⁹
- **Can't influence.** Voters care which party controls the council but feel unable to influence the electoral outcome, particularly in areas where a single party dominates the council.

Single-party domination of local politics may dull the incentives of incumbents to respond to local public opinion. Control of many councils has been dominated by a

¹⁹Thirty-one per cent of respondents thought that councils got *more* money or *much more* from the council tax than from central grant, an answer that is clearly incorrect.

Figure 7.2. Percentage of local councils monopolised by one of the two main political parties, Great Britain, 1980–94^a



^a‘County’ refers to both English and Welsh Shire Counties and Scottish Regional Councils. ‘District’ refers to all English, Welsh and Scottish District Authorities. If the period is increased to include 1995, the number of ‘district’ councils controlled continuously by the Conservatives falls from 58 to 12.

single party over long periods of time. Figure 7.2 shows the percentage of each type of council that was controlled continuously by one of the two main parties for the period 1980 to 1994 inclusive. On average, nearly one in three councils was controlled by a single party over the whole of this period. In most cases, the party dominating local councils was Labour in London Boroughs, Metropolitan Districts and Shire Counties, with a more even split between the Conservatives and Labour in Shire Districts. We found no evidence that election turn-outs were significantly lower in areas in which control of the local council has been dominated by a single party than elsewhere.

Although one party often has a majority in the number of seats held on a council, it is rarer for a party to have received a majority of the votes cast. In May 1995, 182 councils in Great Britain had no single party in control of the council, as shown in Table 7.2. Under a pure proportional voting system, this total would have increased to 401 councils, assuming that a change in electoral systems did not influence voting behaviour. Whilst a

Table 7.2. Number of councils under no overall control under first-past-the-post and proportional-representation electoral systems, Great Britain, 1995

Type of council	First past the post	Proportional representation	Total number of councils
Metropolitan / London	14	40	68
County ^a	33	51	56
District ^b	135	310	386
Total	182	401	510

^a‘County’ refers to both English and Welsh Shire Counties and Scottish Regional Councils.

^b‘District’ refers to all English, Welsh and Scottish District Authorities.

greater fear of electoral mortality might sharpen the impact of local public opinion on council behaviour, a large increase in the number of councils under no overall control might reduce the accountability of individual local parties to the electorate. The government has not announced any plans to reform the local electoral system.

8. Conclusions

Capping was originally introduced in response to the perceived failure of attempts to use the local finance system to discourage 'overspending' by local authorities and concerns over the lack of accountability of councils to their electorates. But the present system of tight central control over local authority spending decisions reduces the flexibility with which councils can respond to the wishes of their electorates and undermines the process of political competition at the local level. This may weaken the accountability constraints on local councils even further.

Local accountability depends both on the existence of a clear and transparent link between local spending decisions and council tax bills and on councils being genuinely accountable to local people. The present local finance system already ensures a pound-for-pound linkage between local spending decisions and council tax bills. Proposals to freeze the system used to allocate grant to local councils for three years will reduce voter confusion over the responsibility for higher council tax bills. A return to some element of local control over non-domestic rates or more complex equalisation arrangements is likely to have the opposite effect. Switching some of the burden of paying for council tax benefit to local taxpayers might act as a significant deterrent to 'excessive' council tax rises but would have undesirable social consequences.

Increasing the stability and transparency of the link between local spending decisions and council tax bills will serve little purpose if councils are not held to account for their budgetary decisions by local voters. Proposals to increase the frequency and form of electoral constraints on local councils through annual elections and budgetary referendums may not succeed in tightening accountability constraints on local councils unless turn-out can be increased.

It is possible to be reasonably sanguine about the effectiveness of the government's proposed reforms to the local finance system and local electoral system in restraining local spending in the longer run. A stronger case can be made for the retention of reserve capping powers during the transition to a more relaxed local finance system, when the government may face considerable uncertainty over both the impact of relaxing controls on local spending and whether central or local government will be blamed for any resultant increases in council tax bills. Proposals to increase the discretion with which the government can exercise its capping powers might allow an early relaxation of central control over the activities of many councils but sit oddly with the pledge to 'enhance local accountability and reduce central government's involvement in local tax and spending decisions' (Department of the Environment, Transport and the Regions, 1998a, Section 1.3).

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