In the Grip of Whitehall? The Effects of Party Control on Local Fiscal Policy in the UK *

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Abstract

This paper uses an instrumental variable approach based on close elections to evaluate the effect of political parties on local fiscal policy in England and Wales over the period 1998-2015. Our main finding is that political control of the council (by Labour, Conservative, or Liberal Democrat parties) has no effect on total current expenditure, the composition of that expenditure, the property tax rate (council tax per band D property) and total council tax revenue. We find the same null results for capital expenditure, debt, and authorized debt limits. Thus, our results confirm the widely expressed belief that centrally imposed constraints on local government fiscal policy (rate-capping, and more recently, compulsory referenda, and the Prudential Code for borrowing) hold local government fiscal policy in a tight grip.

Keywords: Party Control, Grants, Government Spending, Taxation
JEL Codes: H70, H71, D72

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1 Introduction

The UK, and particularly England, is widely recognized to have one of the most centralized systems of sub-national government amongst developed democracies, both in expenditure and taxation. For example, the influential Lyons report on UK local government, written in 2007, concludes: "Over the 1980s and 1990s there has been increasing centralisation across a range of local public services, driven by concerns to control public sector expenditure and to improve public services. This has helped to improve performance, but it has also inhibited the ability of local government to respond to local needs and preferences, and to manage financial pressures" (Lyons, 2007). Although there have been some minor improvements since then, such as the business rate retention scheme, the picture described by Lyons remains largely unchanged.

On the tax side, local authorities have only one major revenue-raising tax, the domestic property tax (council tax), where the rate can be set locally.[1] However, since 1984, when so-called "rate-capping" was introduced, local authorities have been constrained in the increases in council tax that they can set. The current regime, in place since 2012, and described in more detail in section 3.3 below, effectively constrained increases in the rate of council tax to 2% until 2016. This percentage cap was then increased to deal with the funding crisis in social care. However, the cap binds on most local authorities; for example, a recent survey by the Local Government Chronicle found that most local authorities are planning on setting the maximum increase in 2022.[2]

There is no sub-national income tax in the UK, and while the non-domestic property tax (business rate) is a major source of revenue for local authorities, the rates for this tax are set centrally, with a uniform rate for the whole country.[3] Moreover, the council tax only comprises about 20% of revenue for local authorities on average, meaning that they are heavily reliant on central funding.[4]

On the expenditure side, local authorities face several constraints. First, a number of services are funded via specific grants. A notable example is notably spending on primary and secondary education, which comprises about 22% of total service expenditure in our data-set. Since 2006, this has been funded by a ring-fenced specific grant. Even where funding is not via specific grant, the statutory responsibilities of local authorities are often very detailed. A case in point is spending on social care, where spending is largely

[1] "Local authority" is the official term used by the UK government to describe all forms of local government i.e., London boroughs, metropolitan boroughs, unitary authorities, counties, and non-metropolitan districts, and we use it throughout the paper.

[2] See https://www.lgcplus.com/finance/exclusive-over-two-thirds-of-councils-to-raise-council-tax-by-maximum-permitted-05-01-2022/.

[3] Scotland sets its own rate, but again that rate is uniform for all Scottish councils.

[4] For the US, comparable figures are much lower see e.g., Gerber and Hopkins (2011).

determined by the demographic characteristics of the local population.

The regime for capital expenditure is rather different. The majority of capital expenditure by local authorities is on infrastructure which fulfils statutory service requirements, such as housing, highways, street lighting and waste facilities, and most of this expenditure is financed by borrowing. As explained in more detail in Section 3.3 below, since 2003, each authority must set a total borrowing limit for itself in accordance with the principles of the Prudential Code. In turn, most borrowing is from central government at preferential interest rates; only a very small number of authorities issue bonds (Sandford, 2020).[5] This is in stark contrast to the US, where municipal bonds are very widely used.[6]

In this paper, using a new data-set that combines fiscal and electoral data for England and Wales, we investigate whether local government is constrained from responding to local needs and preferences, as the Lyons report claims. To do this, one must first recognize that the formula and specific grants for local authorities in England and Wales takes into account many indicators of need, such as demographics, levels of deprivation, etc. So, there will be a mechanical correlation between these indicators and spending outcomes, *even if* local authorities do not have any discretion at all.

Rather, we interpret Lyons' concern as being about local democracy, and in particular, party politics; that is, conditional on a given level of grant from centreal government, do expenditure and tax outcomes of local authorities depend on which party controls the local council? There is now a large literature, reviewed in Section 2 below, on the effects of party control on fiscal outcomes, using a variety of methods. In our study, we use an instrumental variables approach, using seat shares won in close elections as instruments for either actual party seat shares or party control dummies. We choose this design, rather than a regression discontinuity design (RDD), because local government in the UK is a multi-party system, with the Liberal Democrats being an important third party, rather than a two-party system as in the US.

Because local authorities in England and Wales are heavily dependent on central government grants, a key first step is to determine whether this grant is endogenous to party control, a possible confounding factor. In section 4, we show that this is not the case. Our regression specification is then designed to capture the decision-making of a local authority facing an exogenous grant; we therefore condition on the grant, as well as year and local authority fixed effects. Because of fixed effects, we are essentially asking; does an increase in the seat share of (say) the Conservative party, or a gain in control by

[5] Until recently, borrowing from central government was via the Public Works Loan Board.

[6] At the end of 2019, state and local governments had $3.85 trillion in debt outstanding, of which 60 percent was in the form of local government bonds (https://www.taxpolicycenter.org/briefing-book/what-are-municipal-bonds-and-how-are-they-used, accessed 24/5/22).

the Conservatives at an election in that local authority have any effect on fiscal outcomes?

We consider a variety of outcomes. On the tax side we consider both the tax rate (council tax payable on a band D property) and the total tax requirement. On the expenditure side, we consider two measures of aggregate current expenditure, total service expenditure, and net current expenditure, the latter being a headline budget item. We also consider expenditure shares on schools, social care, planning, culture, environment, housing, and corporate expenditure. Finally, we also consider capital expenditure, debt, and authorized debt limits. We find *no effect of party control or party seat shares on any of these outcomes*. We continue to find null effects when we disaggregate by type of local authorities, and when we split the sample at the beginning of the period of austerity in local authority funding in 2010.

Overall, our findings provide evidence that confirms the concerns of Michael Lyons and others that because of the grip of Whitehall, the local democratic process does not allow local governments to respond to local preferences.

2 Related Literature

This paper is related to the recent literature on the effects of political control on government behaviour at the local level. Important papers here include Ferreira and Gyourko (2009) for US cities, Pettersson-Lidbom (2008), and Folke (2014) for Sweden, and Freier and Odendahl (2015) for Germany. Ferreira and Gyourko (2009) find, using a regression discontinuity design, that whether the mayor is a Democrat or a Republican does not affect the size of city government, the allocation of local public spending, or crime rates. However, they ascribe this lack of partisan control to Tiebout competition between cities; cities where this competition is less intense display partisan differences. More recently, using a similar data-set, Gerber and Hopkins (2011) find that partisan control matters for public safety, a spending area where US cities have considerable discretion. Whereas they replicate Ferreira and Gyourko (2009)'s results for areas where cities are subject to federal and state mandates and constraints, such as tax policy. So, these results are broadly consistent with our results; where local governments are highly constrained by higher-level governments, there tend not to be partisan differences.[7]

Studies for other countries do, however, find partisan differences. Pettersson-Lidbom (2008), Folke (2014) for Sweden, Solé-Ollé and Viladecans-Marsal (2013) for Spain, Freier and Odendahl (2015) for Bavaria, and Fiva, Folke and Sørensen (2018) for Norway all find

[7] Caughey, Xu and Warshaw (2017) do find partisan policy differences at the US state level, but US states are, in terms of autonomy, size, and constitutional protection, very different to UK local governments.

partisan effects in some dimensions of local government policy. However, these tend to be in the area of regulatory policy rather than fiscal policy. For example, Folke (2014), in a careful study which uses a methodology suited to proportional representation systems, finds that while there are partisan differences in environmental and immigration policies, there are no differences in tax policy. Similarly, Fiva, Folke and Sørensen (2018) find that for Norway, there are no differences in spending on local public goods.

On the question of methodology, while we face a similar identification problem to these papers, our approach to it is necessarily slightly different due to the specific electoral rules and party structure in the UK. First, council seats i.e., seats on the governing council of a local authority, are typically contested in the UK by the three main parties (Conservatives, Labour, and Liberal Democrats). Thus, we cannot use methods developed for estimating the causal effect of party control in two-party systems, such as Ferreira and Gyourko (2009). Moreover, English and Welsh local government elections use a plurality voting systems with a varying number of seats per district (ward). This means that we cannot adopt the approach of Folke (2014). Similarly, we can not adopt the approach of Freier and Odendahl (2015) as their Banzhaf index-based approach requires locating each party in the policy space, for which there are no suitable data for local governments in the UK.[8] Instead, we use a closely related approach used by Clots-Figueras (2011, 2012) in which the number of women winning close elections is used to instrument the share of women in a legislature. Specifically, we build on the approach of Hyytinen et al. (2018) who extend this strategy to study the effects of municipal employees on party lists in Finland. This is described in more detail below in section 4.

3 Local government in England and Wales: An Overview

3.1 Structure and Functions

England and Wales has a relatively complex local government structure with several types of council. There are currently 32 London boroughs, 36 metropolitan boroughs, 56 unitary authorities, 33 counties, 201 non-metropolitan districts, and in Wales, 22 unitary authorities. However, all councils except for the county councils and non-metropolitan districts (just districts in what follows) are broadly speaking unitary, in that they are responsible for most or all functions not controlled by central government i.e., primary and secondary education, social care, housing and housing benefit payments, waste disposal,

[8] We note that it is not the case that the positions of local government can be inferred from national parties, and moreover, there will be substantial variation across local authorities that make an approach based on ideological distance infeasible.

transport, and environment, planning, and culture. In what follows, we refer to these generically as unitary local authorities. In the remainder of England, a two-tier system is in place; an upper level, the county, and a lower level, the district. In this case, responsibilities are divided between the two levels, with the county having responsibility for the more major parts of service delivery, such as education, transport, and social care.[9]

In London, local authority functions are currently split between the Greater London Authority, responsible for transport, policing, economic development, and fire and emergency planning, and London Boroughs, which are unitary in the sense that there are no lower subdivisions of local government (except for parish councils) below them, and are responsible for all other functions. However, over the first three years of our sample period, the GLA did not exist, and its functions were shared amongst London Boroughs[10]. We do not include either the GLA in our analysis, or indeed the City of London, which has a rather different and limited function to an ordinary council. So, we include London Boroughs amongst the unitary authorities.

3.2 Elections and Governance

The governing body of a local authority is known as the council. The area which a local authority covers is divided into one or more electoral divisions known as wards. Each ward can return one or more members to serve on the council; multi-member wards are quite common. There is no requirement for the size of wards to be the same within a district.[11] Elections are plurality rule: the candidate(s) with the most votes fill the available seats. Minor and local single-issue parties do tend to do much better at local elections than they do in general elections.

Since 2000, local authorities have had to choose between an executive-based system, with the council leader and a cabinet acting as an executive authority, or with a directly elected mayor. Nearly all local authorities use the council leader and cabinet option: very few mayors are directly elected.[12] The executive councillors i.e., members of the cabinet are appointed either by the full council (i.e., all the authority's councillors) or by the leader. Each possesses a portfolio or responsibility for a particular part of the local

[9] A more complete list is that counties are responsible for education, transport, planning, fire and public safety, social care, libraries, waste management and trading standards. While districts are responsible for rubbish collection, recycling, Council Tax collections, housing and planning applications (www.gov.uk/understand-how-your-council-works/types-of-council).

[10] In other large urban areas, the metropolitan county councils, in place between 1974 and 1986, played a similar role to the GLA.

[11] Metropolitan borough wards must return a multiple of three councillors, while until the Local Government Act 2003 multiple-member county electoral divisions were forbidden.

[12] As of 2015 there are 17 directly elected mayors in England (excluding the Mayor of London).

authority's services — such as education, social services or the environment. Decision-making on each policy area may lie either solely with the executive councillor or with the cabinet as a whole, depending on the constitution. So, overall, if party control has any effect on tax or spending decisions, we expect this effect to be roughly proportional to the seat share of the dominant party, and particularly, if the party has a majority of seats on the council.

3.3 Central Government Constraints

The Government first introduced powers under which it could limit the amount of tax raised by local authorities in 1984; the Rates Act 1984 gave the Government power selectively to 'cap' council rate levels. In 1991 a universal capping power was introduced which placed a cap on any local authority whose planned budget exceeded a given level of increase of expenditure. This system applied to the community charge (or "poll tax") and then to its replacement, council tax, which was introduced from April 1993. The Labour Government elected in 1997 replaced what it called the "crude and universal" capping system with reserve powers to cap selectively.[13] These capping powers were not used until 2004-05 but after that, according to the Department for Communities and Local Government (DCLG), 36 authorities were capped, 43 times overall. Of these, 16 were subject to in-year designation which meant that they were required to re-bill taxpayers immediately.

In 2009, the Conservative government initiated a reform to the capping system which replaced the centrally imposed cap with a requirement to hold a referendum if a proposed budget was excessive. The referendum scheme was introduced in the Localism Act 2011, and has applied to English local authorities since 20212/13. In Wales, the Welsh Parliament still has the power to cap local authorities' council tax rises selectively. No capping power has ever existed in Scotland.

Excessive increases in budgets are defined by a set of thresholds. For the local authorities studied in this paper, these thresholds are given by a percentage nominal increase in the council tax payable on a "standard" i.e., band D property. In most years since the introduction of the legislation, this increase has been 2%.[14] For any increase above this level, a referendum must be held, and the proposed increase must be reduced to the

[13]The Secretary of State could decide whether any authorities had set excessive budget requirements. Authorities could be "designated" to be capped in-year or "nominated" in respect of future years.

[14]In 2012/13, the threshold was 3.5%.

threshold if a simple-majority of those voting reject the increase.[15]

A very striking fact is that since the introduction of the referendum regime, only one referendum has been held, by the county of Bedfordshire in 2015/16, which the county lost. This referendum cost the county £600,000. It would seem that the financial and political costs of a referendum are sufficient to deter local authorities from exceeding the thresholds, leading to a cap in current spending in all but name.

The constraints on capital expenditure are rather different. Prior to 1 April 2004, the government set strict limits on the amount that each local authority could borrow; individual consents for borrowing were granted by central government, under specific policy heads (e.g. education, housing). Following the 2003 Local government act, central government implemented a much more flexible regime, set out in the Prudential Code, published periodically by Chartered Institute of Public Finance and Accountancy (CIPFA). The Code requires all local authorities to draw up rolling three-year plans for capital expenditure, except from that on housing. Most local authority capital finance is obtained through borrowing, and most of that borrowing is from central government at preferential rates, until very recently via the Public Works Loan Board.[16]

Each authority must set a total borrowing limit for itself in accordance with the Prudential Code, and the limit must be related to the revenue streams available to the local authority.[17] There is some flexibility in exactly how individual local authorities set these limits (the Prudential Code does not prescribe formulae), and the Code permits the authority to rely on the judgement of the local authority chief finance officer, and on 'generally accepted accounting practices'.

3.4 Funding of Current and Capital Expenditure

In this section, we give a brief review of how of current and capital expenditure of local government was funded over the sample period; this will guide us in our regression specifications. Our calculations are based on our data-set, which is described in more detail in Section 5. Over the entire period, current expenditure is funded mainly via grants from central government, with the remainder made up from revenue from the residential property tax (council tax) and non-tax income, from fees, etc. Current expenditure cannot be financed from borrowing i.e., from the capital account except in very special

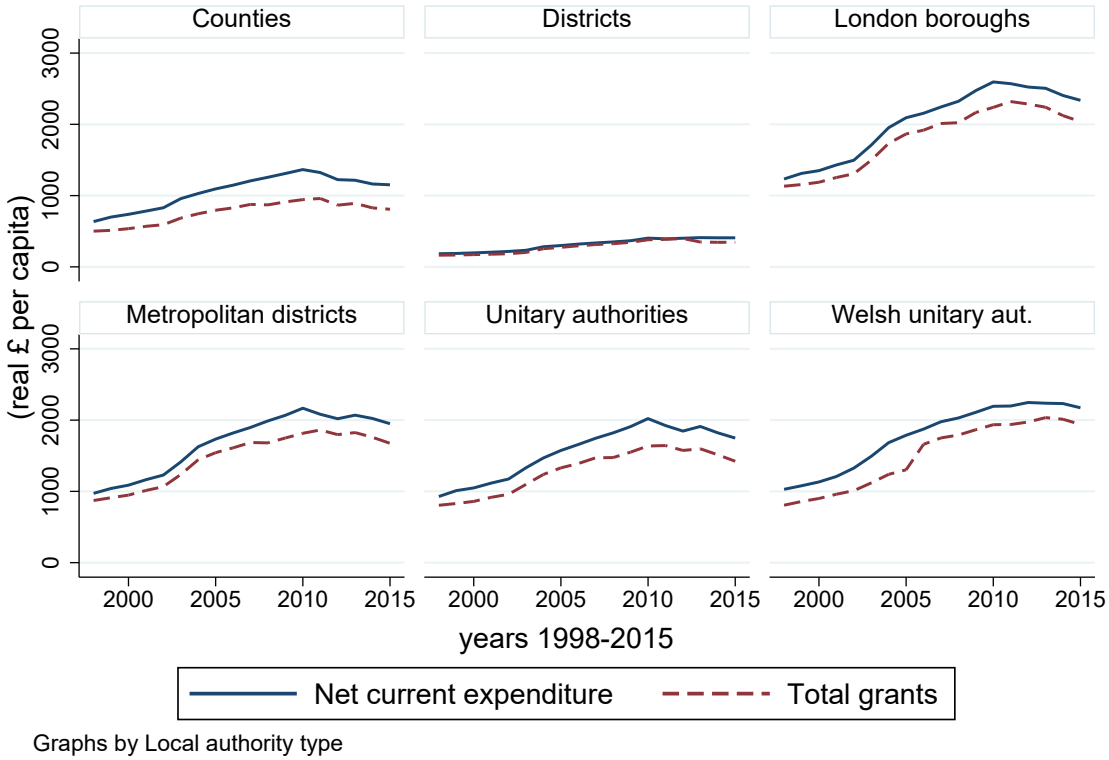
[15]Since 2016/17, local authorities with social care responsibilities have been permitted to increase council tax by an additional percentage amount. This is known as the 'adult social care precept'. It is applied to county and unitary councils, metropolitan boroughs, and London boroughs.

[16]In 2020, the PWLB was abolished as a statutory organization, and its functions were allocated to HM Treasury, where they are discharged through the UK Debt Management Office.

[17]Authorities are prevented by law from using their property as collateral for loans.

circumstances.[18]

Figure 1: Trends in Current Expenditure and Total Grants per Capita



Notes: All series are in £ per capita terms; nominal values are deflated by the 2013 consumer price index. *Net current expenditure* equals *Total Service Expenditure* plus *Rent Allowances*, *Levies* and *Other Adjustments*; *Total grants* equals the sum of *Revenue Support Grants*, *Rate Retention Scheme*, and *Specific grants*. The gap between *Net current expenditure* and *Total grants* is financed by the *Council tax requirement*. Source: authors' calculations based on CIPFA Finance and General Statistics.

The broadest measure of expenditure by local authorities is net current expenditure, which is expenditure on all services, plus housing benefits paid by local councils. As fig. 1 indicates, this expenditure is funded both by grants from central government and revenue from the property tax, known as the council tax requirement. Over our sample period, this revenue was only about around 20% of net current expenditure for the average local authority.

The remaining 80% or so comprises transfers from central government. The overall amount received from central government is composed of three elements, the revenue

[18] According to Sandford (2020), Local authorities may transfer money earmarked for revenue expenditure into their capital account, but may not transfer money from their capital account into their revenue account without permission from central government. Moreover, this permission is only given for expenditures that finance cost reductions or quality improvements in services. In practice, capital financing of net current expenditure is very minor at less than 1% of the total.

support grant, which is a formula-based grant, various specific grants, and revenue from business taxes, which until recently were recycled as grants. In what follows, we call the sum of these three items the *total grant*. As explained in Appendix A, the individual element of this total grant are quite unstable over the same period, due to various structural reforms, notably the movement of funding for schools, which accounts for over 50% of all service expenditure, from the formula grant to a ring-fenced specific grant in 2006. So, in our empirical work, we focus on the total grant as the key determinant of local government expenditure and taxation.

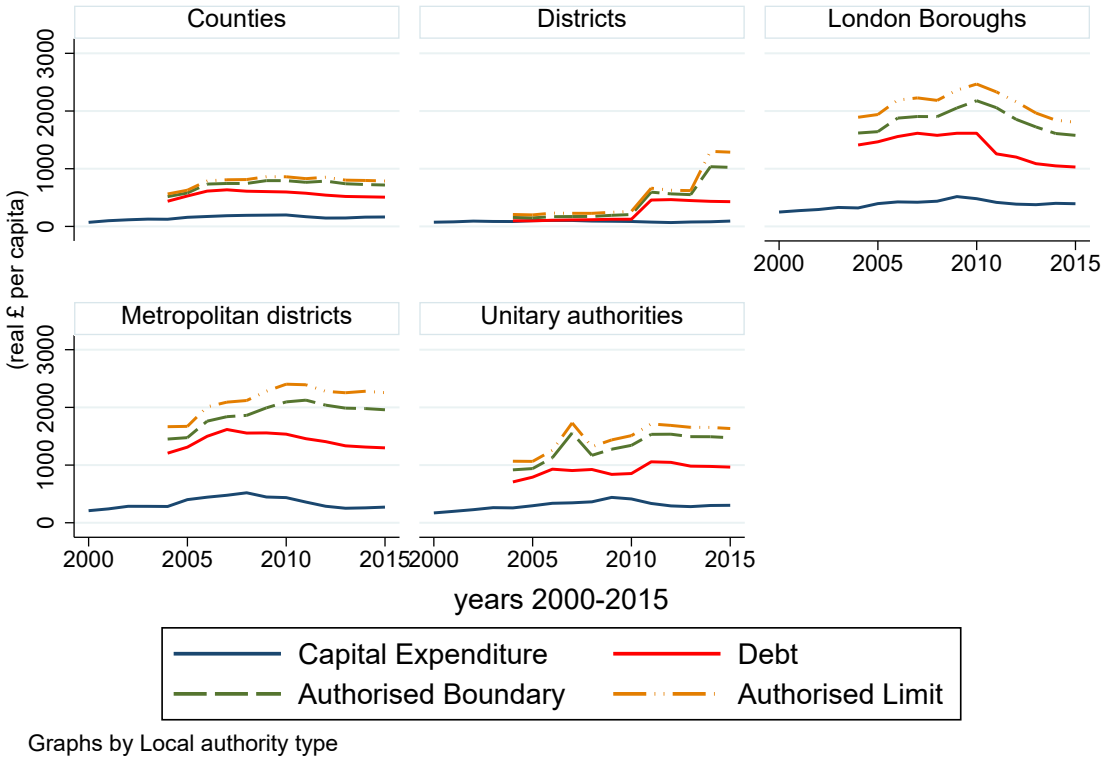
Over our sample period, 1998-2015, Figure 1 reports trends in net current expenditure and central government financing, as measured by the total grant. As can be seen in the Figure, there are two notable features. First, as already remarked, most expenditure is financed by grants. Second, in England, real net current expenditure by upper tier and unitary authorities peaked in 2010-11 (in per capita real terms, net current expenditure reached £2,063 in 2019-11, 117% above 1998 and 13% higher than 2015); at this point, the Conservative government introduced a series of austerity budgets that significantly cut per capita spending in England. Over this period, expenditure in Wales continued to rise slightly up to 2012-13 when reached its peak of £2,247 in real per capita terms, before levelling off. In English Districts net current expenditure continued to rise up to 2013-14 reaching the value of £410 in real per capita terms before levelling off.

Finally, on the capital expenditure side, Figure 2 shows, on a per capita basis, capital expenditure and debt (gross borrowing) of local authorities. These figures also show, since 2004, the authorized limit for borrowing set by the council as a whole, along with the lower operational limit to which council officials are subject. These figures thus reflect the fact that since 2004, a more flexible regime has been in place, as explained in Section 3.3 above. As we can see, there is considerable variation in capital expenditure and debt across types of local authority, with both being lower in counties and districts. There is also a noticeable downturn in capital expenditure somewhat prior to 2010, which is generally recognized as the first year in which "austerity budgets" lead to large decreases in local authority funding.

4 Empirical Specification

Our empirical specification is motivated by the fact, documented in Section 5 below, that local authorities in England and Wales are dominated by the three main parties, Labour, Conservative, and Liberal Democrats, with many councils being controlled by the Liberal

Figure 2: Trends in Capital Expenditure and Debt per Capita



Notes: All series are in £ per capita terms; nominal values are deflated by the 2013 consumer price index. Source: Authors' calculations based on data from the Department of Levelling Up, Housing and Communities.

Democrats. There are also a number of more minor parties who win seats, but do not control councils. As a result of this, on many councils, no party has a majority of seats, known in the UK system as "no overall control".

Because of this feature, methods developed for estimating the causal effect of party control in two-party systems, such as Ferreira and Gyourko (2009), cannot be used in our case. Instead, as discussed above, we adapt the method of Hyytinen et al. (2018).

Our main regression equation is

$$Y_{l,t} = X'_{l,t}\beta + \sum_{P=L,C,LD} \delta^P S^P_{l,t-1} + \mu_l + \tau_t + u_{l,t} \tag{1}$$

where l, P are local authority and party indices, and $Y_{l,t}$ is the outcome variable, which is either a measure of expenditure or council tax. Also, $X'_{l,t}$ is a vector of controls, $S^P_{l,t}$ are the seat shares for party P in local authority l at time $t-1$ and finally, P refers to Labour, Conservative, or Liberal Democrat ($P = L, C, LD$), so everything is measured relative to the baseline effect of "other" parties (independents, Greens, etc). The outcome variable is regressed on the lag of the seat share variables due to lags in the budget process for the UK, as explained in more detail in Section 5 below.

As usual, the problem is that $S^P_{l,t}$ may be correlated with $u_{l,t}$ via unmeasured municipality characteristics that affect voting behaviour. To address this we employ a close-election IV strategy that leverages quasi-random variation in the partisan composition of a council induced by close elections for individual seats. We adapt the approach of Hyytinen et al. (2018) to party-lists for UK local government elections. This builds upon prior work using close-election IVs such as Clots-Figueras (2011, 2012); Folke (2014); Freier and Odendahl (2015) but importantly for our context extends it to the case where there may be more than two candidates from more than two parties involved in close elections in a given ward. This is important for the UK case as local elections are characterized by a combination of single- and multi-member districts and elections for a variable number of districts in a given year.

Consider a particular council election. Let v_{idt} be the actual number of votes for candidate i in voting district (ward) d of the local authority for an election in year t. Then we can define for each candidate in the district a variable as follows:

$$M_{idt} = \begin{cases} v_{idt} - MLV_{dt} & \text{if elected} \\ MWV_{dt} - v_{idt} & \text{if not elected} \end{cases} \tag{2}$$

where MLV_{dt} and MWV_{dt} are the maximum losing vote and minimum winning vote, in that ward at that election, respectively.[19] This is well-defined both for single-councillor and multi-councillor districts.

Then can define a close election dummy as follows:

$$C_{idt} = \begin{cases} 1 & \text{if } |M_{idt}| \leq \varepsilon \\ 0 & \text{if } |M_{idt}| > \varepsilon \end{cases} \tag{3}$$

If $C_{idt} = 1$, the (non)-election of i was close in that the margin of victory or defeat was less than ε. We set $\varepsilon = 100$.

Moreover, let $D_{idt} = 1$ if candidate i was actually elected. So, $C_{idt}D_{idt}$ is a dummy recording if a candidate got elected in a close election in district d. Finally, let P_{idt} is a dummy recording whether the candidate is in party P. Note that these definitions allow for there being multiple candidates from one or more parties who are closely elected or not, and it is not affected by the number of seats in the district being elected or the number of electoral districts in the council.

Our instrument is then the difference between the number of candidates of party P

[19] The MLV is the number of votes of the candidate with the largest number of votes who was not elected. The MWV is defined similarly.

elected in close elections and the number that would be expected on average, across all electoral districts of the council. To calculate this, first define $S_{d,la}$ as the set of candidates in district d of local authority l and S_l as the union of these sets across all districts. Then our instrument can be calculated as follows:

$$T^P_{l,t} = \underbrace{\sum_{i \in S_l} C_{idt} D_{idt} P_{idt}}_{\#\text{Candidates Elected}} - \underbrace{\frac{\sum_{i \in S_l} C_{idt} P_{idt}}{\sum_{i \in S_l} C_{idt}} \left(\sum_{i \in S_l} C_{idt} D_{idt} \right)}_{\mathbb{E}[\#\text{Candidates Elected}]} \tag{4}$$

The first term is the actual number of candidates from party P who were elected in close elections. The second term is the expected number of candidates from party i to get elected amongst all the close candidates. It differs from the first term because there will be elections in which there are multiple candidates from one party and or candidates from more than two parties in a close race. Positive (negative) values reflect the extent to which party P got lucky in the sense that a disproportionate number of close elections were resolved in its favour.

Our identification assumption is that $\mathbb{E}\left[T^P_{l,t} u_{l,t}\right] = 0$. This requires that no party tends to disproportionately win close elections, i.e., $\mathbb{E}\left[T^P_{l,t}\right] = 0$. Inspection of table 1 shows that this is indeed the case. It also requires the standard, and well-documented claim that close elections are as good as random (Eggers et al., 2014). Note that we do not require that individual close district-level elections are independent of each other at a given council election.

In Table B.1, we report covariate balance tests dividing the data into two groups depending on whether the number of candidates elected in close elections was greater than expected ($T^P_{l,t} > 0$) or fewer than expected ($T^P_{l,t} < 0$). As our focus is on within-council variation we compute the differences conditional on LA fixed-effects. We can see that there are no systematic differences in the covariates.

In our preferred specification we restrict $X_{l,t}$ to contain only the central government grant each local authority receives. This is because the grant formula takes into account characteristics of local authorities such as (dis)economies of scale due to larger populations, levels of deprivation, and the age structure of the population. Hence, this should capture non-discretionary ways in which LA fiscal policy varies. Thus, it represents a parsimonious way to capture the impact of these factors minimizing the number of parameters to be estimated and ensuring that we do not fail to find an effect of political control because are asking too much of the data. In Tables B.7–B.10 in the Appendix we present results showing that in fact our results are unaffected by the inclusion of the additional covariates amongst the regressors.

As discussed in Section 3.4, local authorities saw a substantial increase in spending

around in the first six years of the millennium. In practice this increase in funding occurred in different local authorities at different times. In our preferred specification we do not try to control for this, because if these changes are instead for political reasons then in doing so, we will make it less likely to find an effect of political control. However, for the avoidance of doubt, columns (2)–(9) of Tables B.7–B.10 also include in $X_{l,t}$ a local authority-specific structural break term. This is estimated using a Wald Supremum test for a single structural break with an unknown date (Hansen, 1997). Again, the results are unaffected.

A final issue is the possible endogeneity of grants. For reasons already explained, the total grant is a key determinant of both local authority expenditure and taxation. A possible concern is that the grant could be endogenous to political control of the council. For example, Fouirnaies and Mutlu-Eren (2015) finds an alignment effect in specific grants, whereby councils that are politically aligned with central government receive larger grants. Endogeneity is a potential problem because if grants are affected by the party in power on the council, then the *preferences* and *resources* of politicians are confounded. For example, if Labour local authorities get a larger grant than Conservative ones when Labour is the national government, then even conditional on local characteristics, a local authority controlled by Labour will have some combination of higher expenditure and lower taxes than a local authority controlled by Conservatives, *even though* there may be no ideological differences in the preferences of the two local authorities over spending and taxation.

Table B.2 reports regressions of the total grant on various local authority characteristics and an alignment dummy that is equal to 1 if the council of that local authority is aligned with national government, and 0 otherwise.[20] In the specification with two-way fixed effects (column 3) we see that the total grant does indeed depend on local authority characteristics as expected. For example, it is decreasing in population, reflecting the fact that due to economies of scale, the costs of providing services are lower in larger local authorities. Also, the grant is increasing in the shares of young and retired population. We also allow for a local authority-specific structural break term. When the alignment dummy is added to this specification, it is insignificant. Statistically, this is not surprising as the other variables in this specification account for 81% of the variation in the grant within a local authority. The reason our results differ from Fouirnaies and Mutlu-Eren (2015) is probably due to the fact that we are studying the total grant, whereas they study specific grants, which are more open to political manipulation.

[20] In the construction of this variable, the coalition government of 2010-15 was classified as Conservative, as the Conservative party was the senior partner.

5 Data

Our data-set covers all English and Welsh local authorities from the period 1998 to 2015. We first discuss our outcome variables $Y_{l,t}$. Our first outcome variable is net current expenditure per capita, which is the most general measure of current expenditure available. We also use total service expenditure. The latter is equal to the former excluding various housing benefits paid by local authorities, plus a number of smaller items.[21] We also have expenditure disaggregated by type of service provided. Our second variable is a measure of level of local property tax revenue per capita, the tax requirement per capita. In turn, the tax requirement is simply the amount of property tax the local authority intends to collect in that financial year. Our second measure of tax is the main tax rate, i.e., the council tax paid per "standard" or band D property. As explained in Section 3.3, this rate is highly salient, and the focus of media attention, as it determines whether a local authority will be capped in any given year. In all cases, nominal values are deflated by the 2013 consumer price index. All of these variables are financial year variables and are taken from the *Finance and General Statistics* published annually by the *Chartered Institute of Public Finance and Accountancy* (CIPFA).[22]

Our final variables relate to capital expenditure and debt and debt limits. These data are from the Department of Levelling Up, Housing and Communities.[23] Capital expenditure is defined as total capital expenditure across all categories, excluding acquisition of share and loan capital, total debt is defined as gross borrowing at the end of the financial year, and we also have the operational boundary and authorized limit for external debt. Descriptive statistics for these variables, and all others, are given in Table 1 below.[24]

As explained in Section 4 above, our main explanatory variables of interest are the party seat shares. These shares taken from the Elections Centre, University of Plymouth (Rallings and Thrasher, 2020). These provide seat-shares for the Conservative, Labour, and Liberal Democrat parties as well as Plaid Cymru and the number of independent or otherwise affiliated councillors. They also provide data on which, if any, party had control of the council.

Ward level data used to construct instruments for the period 1993-2003 are taken from Ware, Rallings and Thrasher (2006). Data for 2004 and 2005 are based on newly digitized data from Rallings and Thrasher (2004) and Rallings and Thrasher (2005) respectively. Data for 2006–2015 are from the Local Elections Archive Project (Teale, 2020). In each

[21] By far the largest component of the difference comprises the sum of rent allowances and rent rebates.

[22] Data are available at https://www.cipfa.org.

[23] The data are available at: Local Authority Capital Expenditure and Receipts England 2000-2015

[24] The exception is for the individual expenditure categories; the mean values of these in share form are given in Table 4 below.

case the data are based on those supplied by the returning officers for each council.

Figure 3 is a tripolar scatter-plot showing the pattern of political control of councils of English and Welsh local authorities over the sample period. The main message of this plot is that there is substantial control of councils by all three parties, as well as numerous councils where no party has overall control i.e., more than 50% of the seats. Note that in constructing the figure, for clarity, we exclude the vote share of other parties. So, it is possible for there to be no overall control of the council even if one of the three main parties has more than 50% of the seats held by the three main parties. In practice as the figure indicates, this occurs almost exclusively when the largest party on the council is the Labour Party.

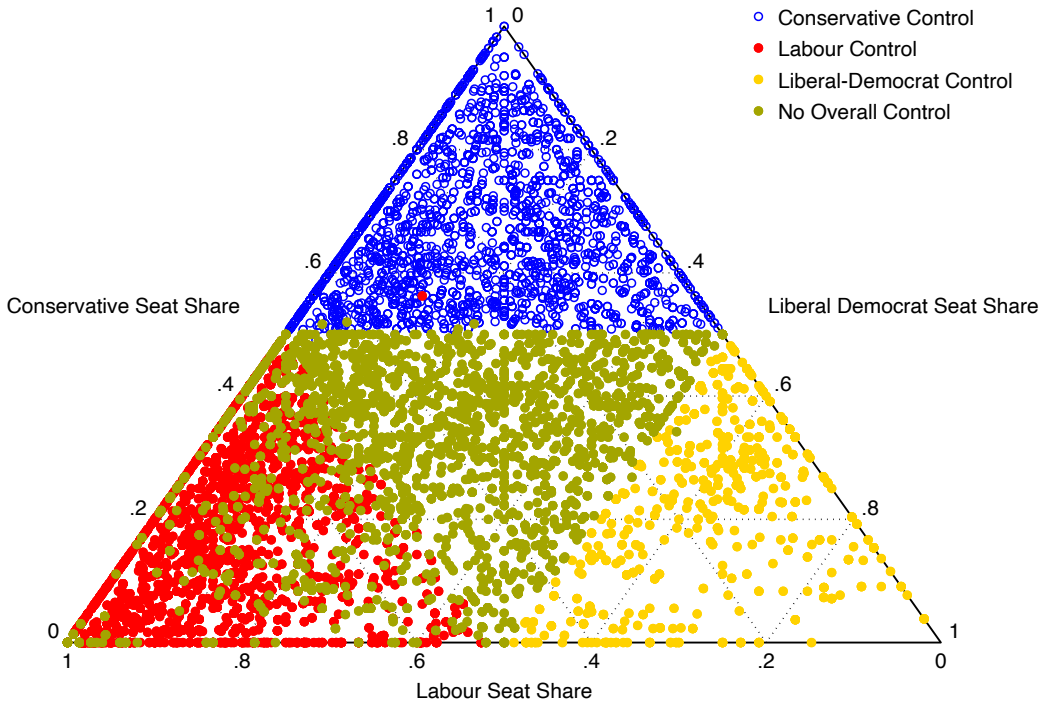
Finally, we have some additional control variables that capture council characteristics that (a) might plausibly be changing over time at different rates for different local authorities, and thus will not be picked up by local authority and year fixed effects, and (b) might affect spending and taxation, conditional on the grant. These are total population and total population squared, and the proportions of the population under 15 and over 65. These capture any (dis)-economies of scale from having larger populations to serve, plus any additional needs from a larger share of young or elderly in the population (Ward and John (1999)). The source for these is the Office of National Statistics.

To understand the relationship between our party control variables and dependent variables, we briefly outline the budget process. In the summer of year t, national government begins the process of deciding on the grant allocation to councils for year t+1. This process ends with the announcement of the Provisional Local Government Finance Settlement for t+1, typically announced in December of year t. In the January and February of year t+1, the council then prepares the budget for the financial year t+1, a process that ends with the approval of the Budget by the Council in February or march of that year. The expenditure and tax data in the CIPFA statistics for year t are simply taken from these budgets.[25] This has the following implication. As current expenditures and council taxes for year t+1 are planned in year t, they can be affected by party control in year t, if it is affected at all. So, to allow for this, we forward our outcome variables of interest by one year i.e., $Y_{l,,t}$ in equation (1) above refers to a spending or tax measure in year $t+1$. The exception is for capital expenditure, where the dependent variable is defined as a three-year moving average of forward values, to reflect the statutory three-year planning horizon for this expenditure.

Finally, we comment on our choice of starting year. Over the period for which we have data, there were two rounds of reform of structure of local government, over the period 1996-98 and also in 2009. The 1996-98 reforms were quite extensive; in England,

[25]CIPFA surveys all councils in March of every year, to collect the data for that year.

Figure 3: Party Vote Shares and Council Control



The figure is a ternary (or tripolar or simplex) scatter plot reporting the vote shares of the Conservative, Labour, and Liberal Democrat parties. Each point describes a council election outcome and are coloured to reflect which, if any, party controlled the council. Elections in which the three-party vote share was less than 90% are excluded for clarity.

a number of unitary authorities were created, mainly in urban areas, and five county councils were abolished, being divided into a number of unitary authorities.[26] In Wales, all counties except for Anglesey became unitary authorities, with districts in these counties disappearing altogether.[27] The 2009 reforms were much more minor, and involved five English counties moving from the two-tier structure to being single unitary authorities (Cornwall, Durham, Northumberland, Shropshire, and Wiltshire) and Cheshire divided into two UAs. Finally, in Wales, Anglesey became a UA. So, given the extensive nature of the earlier reforms, we start our data-set in 1998.

[26] Avon, Berkshire, Cleveland, Humberside, and Isle of Wight. Berkshire retained its status as an administrative area.

[27] For a complete list of these reforms, see Gazetteer of the old and new geographies of the United Kingdom, ONS, 1999.

Table 1: Summary Statistics

	Mean	SD	Min	Max	N
Total Service Expenditure p.c.	682.13	672.82	38.17	3,053.76	6,613
Net Current Expenditure p.c.	893.48	758.35	38.17	3,914.73	6,643
Tax Requirement p.c.	180.35	145.87	6.35	635.44	6,643
Tax per Band D equiv.	1,222.79	263.09	62.10	1,756.44	6,544
Capital Expenditure p.c.	154.81	150.56	0.00	2,726.98	5,897
Debt p.c.	537.97	665.00	0.00	4,773.88	4,361
Authorised Boundary p.c.	774.67	2,310.86	0.00	100,597.61	4,361
Authorised Limit p.c.	896.93	3,142.30	0.00	140,438.25	4,361
CON Seat Share	0.42	0.25	0.00	1.00	6,651
LAB Seat Share	0.29	0.26	0.00	1.00	6,651
LD Seat Share	0.18	0.17	0.00	0.91	6,651
CON Control	0.41	0.49	0.00	1.00	6,651
LAB Control	0.23	0.42	0.00	1.00	6,651
LD Control	0.06	0.23	0.00	1.00	6,651
No Overall Control	0.30	0.46	0.00	1.00	6,651
T_{mt}^{CON}	0.01	0.07	-0.28	0.48	6,651
T_{mt}^{LAB}	0.00	0.06	-0.38	0.34	6,651
T_{mt}^{LD}	0.01	0.05	-0.24	0.34	6,651
Total Grants p.c.	761.89	663.16	0.00	3,653.71	6,651
Population (Millions)	0.19	0.20	0.02	1.51	6,651
% pop $<$ 15	19.08	1.76	12.82	27.32	6,270
% pop $>$ 65	17.35	3.81	6.00	32.70	6,270
band D equiv % p.c.	0.35	0.05	0.18	0.64	6,544

Notes: Variable sources and definitions are given in the text. $T_{l,t}^{CON}$,$T_{l,t}^{LAB}$, and $T_{l,t}^{LD}$ are as defined in eq. (4).

6 Results

6.1 The Effect of Party Control on Current Expenditure, the Tax Requirement, and the Property Tax Rate

Our main results are in Tables 2 and 3. Both tables have the same structure. Each column reports an estimate of equation (1), where in each case, we include a single party seat share or party control variable. A party control variable equals unity if that party has a strict majority on the council, and zero otherwise. For both tables, the dependent variables and the grant are both measured in logs. We include council and year fixed effects in all specifications, and the sample includes all councils.

It is important to note that we do not add *all* the party shares, or *all* the party controls in each estimation because diagnostic tests suggest that the inclusion of multiple endogenous variables leads to a weak instruments problem. This is particularly important in our case as 2SLS is biased towards zero with weak instruments, and so it is possible that with weak instruments, we find that political control does not affect fiscal policy due to estimator bias. To rule this out, we enter each seat share or party control variable individually and instrument it with all three of the instruments $T^{C}_{l,t}$, $T^{L}_{l,t}$, $T^{LD}_{l,t}$.

For each specification, we report the results of two diagnostic tests on the performance of the instruments. First, as we have multiple instruments ($T^{C}_{l,t}$, $T^{L}_{l,t}$, $T^{LD}_{l,t}$) we report the Cragg-Donald F-statistic (Cragg and Donald, 1993) as a test for weak-identification. This is the multivariate generalisation (Stock and Yogo, 2005) of the more conventional first-stage F-statistic. Looking across all columns of tables 2 and 3 the results suggest that weak identification is unlikely to be driving our results as a test-statistic of 13.91 is sufficient to rule out bias of more than 5%. Second, we report the p-value associated with the Sargan-Hansen (Hansen, Heaton and Yaron, 1996) overidentification test of all instruments. Our failure in each case to reject the null-hypothesis suggests that the test provides evidence that our instruments are valid.

Looking at Table 2 first, we see that no matter which seat share or party control variable is used, there are no significant effects of either seat shares or party control on either net current expenditure or total service expenditure.[28] Moreover, Tables B.3 and B.5 in the Appendix show that this negative result is robust to a number of variations. It holds even if we do not include local authority fixed effects, and also holds if we estimate the equation for the different local authority types (County and District councils, London Boroughs, Metropolitan Districts, and Unitary Authorities) separately.[29] As a

[28] We do not report R^2 for the 2SLS estimates as it is not interpretable.

[29] Unitary Authorities include Welsh Unitary Authorities.

further robustness check, in Tables B.7 and B.8 we add additional controls (population, population squared, percentage of the population aged under 15, the percentage of the population aged over 65, and the number of Band D equivalent properties per capita) to the regressions; again, the qualitative conclusion is unchanged. So, our overall conclusion is that control by one of the three main parties, relative to no overall control, has no effect on local government spending.

In Table 2, the effect of the grant on net current expenditure is very significant and suggests an elasticity of 0.36. This elasticity is comparable to estimates for the US (e.g., Hines and Thaler (1995)). In the case of total service expenditure, the elasticity is insignificant, but when year effects are omitted (not reported) it becomes significantly positive with a coefficient of around 0.4. This suggests that total service expenditure tends to vary in the same way over time across different local authorities.

Turning to Table 3, we see again that no matter which seat share or party control variable is used, there are no significant effects of either seat shares or party control on either the tax requirement or the tax rate. Moreover, Tables B.5, B.6 in the Appendix show that this negative result is robust to the same variations as for Table 3, and Tables B.9, B.10 show further robustness to the inclusion of additional controls. So, our conclusion is that political control by one of the three main parties, relative to no overall control, also has no effect on either council tax revenue or the tax rate.

Finally, in Table 3, the positive elasticity of the tax requirement with respect to the grant is somewhat puzzling. On possibly explanation is that there are increases in expenditure in some local authorities that are not fully funded by the total grant and so the tax requirement also needs to rise.

Table 2: The Determinants of Local Authority Expenditure

	(log) Net Current Expenditure p.c.						(log) Total Service Expenditure p.c.					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
L.CON Seat Share	0.030						0.017					
	(0.087)						(0.116)					
L.LAB Seat Share		0.074						−0.120				
		(0.097)						(0.137)				
L. LD Seat Share			−0.058						0.076			
			(0.094)						(0.107)			
L.CON Control				0.012						0.003		
				(0.035)						(0.044)		
L.LAB Control					0.042						−0.060	
					(0.049)						(0.067)	
L.LD Control						−0.075						0.075
						(0.085)						(0.102)
(log) Total Grants p.c.	0.360***	0.363***	0.362***	0.360***	0.363***	0.362***	0.015	0.012	0.015	0.015	0.013	0.015
	(0.032)	(0.032)	(0.033)	(0.032)	(0.033)	(0.033)	(0.025)	(0.025)	(0.025)	(0.025)	(0.025)	(0.025)
Observations	6230	6230	6230	6230	6230	6230	6200	6200	6200	6200	6200	6200
WeakID	21.72	18.21	27.96	10.46	6.92	7.65	21.83	18.26	27.23	10.50	6.81	7.65
OverID	0.58	0.76	0.69	0.58	0.82	0.86	0.62	0.93	0.77	0.62	0.92	0.83
Sample	All	All	All	All	All	All	All	All	All	All	All	All
LA FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Note: All specifications additionally include local authority and year fixed effects, as well as an LA-specific structural break computed using an LA-specific Supremum Wald test (Hansen, 1997). The WeakID statistic is the Cragg-Donald F-statistic. The OverID statistic is the p-value associated with the Hansen, Heaton and Yaron (1996) robust version of the Sargan-Hansen statistic. Standard Errors clustered by local authority are in parentheses. *** Significant at the 1% level. ** Significant at the 5% level. * Significant at the 10% level.

Table 3: The Determinants of Local Authority Taxation

	(log) Tax Requirement p.c.						(log) Tax per Band D Equivalent					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
L.CON Seat Share	−0.026						0.038					
	(0.080)						(0.062)					
L.LAB Seat Share		0.122						−0.022				
		(0.109)						(0.074)				
L. LD Seat Share			−0.050						−0.029			
			(0.078)						(0.037)			
L.CON Control				−0.009						0.016		
				(0.031)						(0.023)		
L.LAB Control					0.062						−0.010	
					(0.055)						(0.035)	
L.LD Control						−0.064						−0.018
						(0.078)						(0.035)
(log) Total Grants p.c.	0.073***	0.075***	0.072***	0.072***	0.074***	0.072***	0.067	0.068	0.069	0.068	0.068	0.069
	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)	(0.044)	(0.044)	(0.046)	(0.044)	(0.044)	(0.046)
Observations	6230	6230	6230	6230	6230	6230	6164	6164	6164	6164	6164	6164
WeakID	21.72	18.21	27.96	10.46	6.92	7.65	22.23	18.43	28.22	10.67	7.16	7.65
OverID	0.53	0.99	0.60	0.52	1.00	0.66	0.95	0.66	0.89	0.97	0.66	0.80
Sample	All	All	All	All	All	All	All	All	All	All	All	All
LA FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Note: Notes as for table 2.

6.2 The Effect of Party Control on The Composition of Expenditure

In this section, we investigate whether there is any effect of party control on the composition of expenditure. In the CIPFA data, the main categories of expenditure are: expenditure on schools, social care, planning, culture, environment, housing, and corporate expenditure. So, we estimate specification (1) for separately for each of these expenditure categories, with the dependent variable being the amount spent on that service as a fraction of total service expenditure. The mean values of these shares are given in Table 4; the largest expenditure categories are environmental and education expenditure. In turn, the main components of environmental expenditure are waste collection, disposal, and recycling. We do not include spending on police and fire services, as spending on the latter are determined by other, primarily non-political bodies. For example, the police precept (levy on the local council tax) is in fact determined by a separate body, the police authority, some of whose members are non-political appointees.

The results are shown in Table 4 below. Each column reports results for a different expenditure category. Within a column, each row reports a coefficient from a separate regression, corresponding to the political variable shown in the first column of the table. For example, the first row of column 1 reports the effect of the Conservative seat share on the education expenditure share, where the Conservative seat share is instrumented by T^C, T^L, T^{LD}. As we can see from the table, not a single political variable is significant, except the share of expenditure on planning, where there is some weak evidence that Conservatives spend more. Given the number of outcomes we consider, and that the relationship is only significant at the 10% level our interpretation of this is that it represents chance rather than any than an effect of political control.[30] So, we can conclude that there is strong evidence that neither the party composition, nor the party control of the council, has any effect on the composition of expenditure.

One final issue is that there was a major change in the funding of education expenditure in 2006-7, when a ring-fenced Schools Grant was introduced; before, education had been funded out of the overall grant and council tax revenues. It is possible, therefore, that reduced discretion on spending on this important item after 2006 may be leading to the absence of party control effects, as seen in column 1 of the table. To test for this, we estimate (1) separately for the period 1998-2006 and 2007-15 for education expenditure, and these two results are reported in columns 10 and 11 of Table 4. As we can see, there is no effect of party control even before the dedicated schools grant was introduced.

[30] Put differently, using standard Bonferroni-type corrections would imply that we require a much higher level of statistical significance.

6.3 The Effect of Party Control on Capital Expenditure and Debt

In this section, the dependent variables are capital expenditure and the growth rates of actual debt, and the operational boundary and authorized limit for debt. As local authorities are required to formulate a rolling three-year plan for capital expenditure, we take the three-year forward moving average of the log of capital expenditure as the dependent variable i.e., the dependent variable in year t is the average of the log of capital expenditure in years $t+1, t+2, t+3$.

The results for capital expenditure and debt are in Table 5. This table shows that there are no party control effects. As regards the control variables, we can note that population has a negative effect on both capital expenditure and debt per capita, as might be expected from standard economies of scale arguments. However, as the coefficient on squared population is positive, this negative effect is diminishing, as might be expected from congestion effects. It is also interesting to note that the coefficient on band D equivalent properties per capita is strongly negative, which is intuitive; councils with a higher taxing capacity have less additional borrowing.

In Table 6, similar regressions are shown where the dependent variables are the growth rate of both the operational debt boundary and the authorized limit. Again, there are no effects of party control. As regards the control variables, we note again that population has a negative linear effect and positive quadratic effect on both limits. This is consistent with the findings of the previous table, and shows that these basic forces, notably economies of scale in capital spending, also show up in prudential debt limits. Finally, in Table B.11 in the Appendix, we study the ratios of actual debt to the operational boundary and the authorized limit, to check whether party control matters for how close the authority goes to the limit; again, there are no party control effects.

Table 4: Partisan Control & Composition of Expenditure

	(1) Education %	(2) Social Care %	(3) Corporate %	(4) Transport %	(5) Culture %	(6) Planning %	(7) Environment %	(8) Housing %	(9) Other%	(10) Education %	(11) Education %
L.CON Seat Share	0.050	0.015	−0.003	−0.006	0.011	0.078*	0.117	0.041	−0.006	0.002	0.210
	(0.056)	(0.038)	(0.068)	(0.026)	(0.066)	(0.037)	(0.093)	(0.042)	(0.017)	(0.019)	(0.127)
L.LAB Seat Share	0.051	0.008	0.052	0.036	−0.135	−0.011	−0.046	0.017	0.031	−0.005	0.013
	(0.094)	(0.057)	(0.076)	(0.030)	(0.069)	(0.047)	(0.105)	(0.043)	(0.022)	(0.031)	(0.206)
L. LD Seat Share	−0.022	0.003	−0.036	0.001	0.093	−0.046	−0.012	−0.010	−0.011	0.000	0.042
	(0.057)	(0.044)	(0.070)	(0.023)	(0.072)	(0.037)	(0.090)	(0.047)	(0.018)	(0.015)	(0.186)
L.CON Control	0.015	0.004	0.000	0.000	0.001	0.029	0.039	0.012	−0.003	0.001	0.071
	(0.022)	(0.015)	(0.027)	(0.009)	(0.026)	(0.016)	(0.037)	(0.017)	(0.006)	(0.007)	(0.044)
L.LAB Control	0.037	0.008	0.026	0.016	−0.067	0.001	−0.008	0.016	0.014	−0.003	0.019
	(0.051)	(0.031)	(0.039)	(0.014)	(0.037)	(0.025)	(0.053)	(0.022)	(0.010)	(0.010)	(0.188)
L.LD Control	−0.075	−0.017	−0.036	−0.020	0.091	−0.057	−0.059	−0.043	−0.016	0.007	−0.070
	(0.067)	(0.043)	(0.064)	(0.023)	(0.066)	(0.035)	(0.079)	(0.040)	(0.016)	(0.012)	(0.204)
L.No Overall Control	−0.044	−0.011	−0.014	−0.013	0.035	−0.048*	−0.056	−0.029	−0.003	−0.008	−0.100
	(0.035)	(0.025)	(0.040)	(0.012)	(0.042)	(0.025)	(0.053)	(0.026)	(0.011)	(0.011)	(0.073)
Observations	6198	6159	6196	4529	6200	6057	6200	6177	5250	2842	3319
Mean	0.22	0.10	0.13	0.03	0.15	0.08	0.24	0.09	0.01	0.22	0.22
Sample	All	All	All	All	All	All	All	All	All	97-2006	07-2015
LA FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Note: Mean is the average share of that category of expenditure in total expenditure. Other details are as for table 2.

Table 5: The Determinants of Local Authority Capital Expenditure and Borrowing ??

	(log) Capital Expenditure p.c.						Δ(log) Debt p.c.					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
L.CON Seat Share	−0.043						0.006					
	(0.429)						(0.729)					
L.LAB Seat Share		−0.056						0.456				
		(0.467)						(0.623)				
L. LD Seat Share			0.041						−1.799			
			(0.462)						(1.972)			
L.CON Control				−0.013						0.074		
				(0.158)						(0.232)		
L.LAB Control					−0.033						0.343	
					(0.219)						(0.412)	
L.LD Control						0.071						−1.429
						(0.416)						(1.750)
Population (Millions)	−1.793*	−1.753*	−1.773*	−1.788*	−1.739*	−1.787*	−5.932***	−6.038***	−6.494***	−5.944***	−5.816***	−5.818***
	(0.931)	(0.984)	(0.954)	(0.944)	(0.987)	(0.919)	(0.786)	(0.850)	(0.948)	(0.674)	(1.094)	(1.014)
Population^2	0.002**	0.002**	0.002**	0.002**	0.002**	0.002**	0.002**	0.002***	0.002**	0.002***	0.002**	0.002***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
% pop $<$ 15	0.022	0.021	0.021	0.022	0.021	0.022	0.068**	0.080**	0.104*	0.064**	0.083**	0.067
	(0.029)	(0.028)	(0.028)	(0.029)	(0.029)	(0.029)	(0.033)	(0.036)	(0.056)	(0.032)	(0.036)	(0.045)
% pop $>$ 65	−0.100***	−0.102***	−0.101***	−0.101***	−0.102***	−0.101***	0.051	0.069**	0.077*	0.047*	0.083*	0.070*
	(0.021)	(0.018)	(0.016)	(0.019)	(0.016)	(0.017)	(0.032)	(0.034)	(0.042)	(0.027)	(0.045)	(0.042)
band D equiv % p.c.	0.805	0.814	0.799	0.823	0.828	0.798	−3.907***	−3.460***	−2.894*	−4.020***	−3.134**	−3.817***
	(0.778)	(0.777)	(0.783)	(0.760)	(0.793)	(0.774)	(1.074)	(1.254)	(1.569)	(1.108)	(1.439)	(1.240)
Observations	4774	4774	4774	4774	4774	4774	2893	2893	2893	2893	2893	2893
WeakID	22.41	22.26	25.22	11.03	8.75	5.83	11.96	9.59	4.06	9.83	3.27	1.04
OverID	0.96	0.97	0.96	0.95	0.97	0.97	0.52	0.61	0.71	0.49	0.64	0.70
Sample	All	All	All	All	All	All	All	All	All	All	All	All
LA FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Note: All specifications additionally include local authority and year fixed effects, as well as an LA-specific structural break computed using an LA-specific Supremum Wald test (Hansen, 1997). The WeakID statistic is the Cragg-Donald F-statistic. The OverID statistic is the p-value associated with the Hansen, Heaton and Yaron (1996) robust version of the Sargan-Hansen statistic. Standard Errors clustered by local authority are in parentheses. *** Significant at the 1% level. ** Significant at the 5% level. * Significant at the 10% level.

Table 6: The Determinants of Local Authority Debt Limits

	Δ (log) Boundary p.c.						Δ (log) Limit p.c.					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
L.CON Seat Share	−0.741						−0.754					
	(0.920)						(0.850)					
L.LAB Seat Share		0.088						0.194				
		(1.152)						(0.993)				
L. LD Seat Share			0.202						0.130			
			(1.186)						(1.018)			
L.CON Control				−0.240						−0.260		
				(0.273)						(0.262)		
L.LAB Control					0.155						0.197	
					(0.728)						(0.638)	
L.LD Control						0.409						0.245
						(1.447)						(1.085)
Population (Millions)	−4.094***	−4.510***	−4.412***	−4.476***	−4.531***	−4.500***	−4.009***	−4.476***	−4.370***	−4.401***	−4.479***	−4.411***
	(0.744)	(0.658)	(0.645)	(0.579)	(0.727)	(0.424)	(0.682)	(0.610)	(0.582)	(0.529)	(0.708)	(0.404)
Population^2	0.001	0.001	0.001*	0.001***	0.001**	0.001***	0.001	0.001*	0.001*	0.001***	0.001***	0.001***
	(0.001)	(0.001)	(0.001)	(0.000)	(0.000)	(0.000)	(0.001)	(0.001)	(0.001)	(0.000)	(0.000)	(0.000)
% pop $<$ 15	0.025	0.010	0.005	0.022	0.015	0.009	0.032	0.018	0.012	0.029	0.023	0.015
	(0.040)	(0.043)	(0.030)	(0.036)	(0.045)	(0.032)	(0.039)	(0.037)	(0.026)	(0.035)	(0.040)	(0.033)
% pop $>$ 65	0.026	0.007	0.002	0.014	0.015	0.001	0.028	0.010	0.003	0.014	0.018	0.003
	(0.033)	(0.040)	(0.021)	(0.023)	(0.053)	(0.022)	(0.033)	(0.034)	(0.018)	(0.023)	(0.045)	(0.019)
band D equiv % p.c.	−1.728*	−1.804	−2.020	−1.472	−1.546	−1.995*	−1.282	−1.238	−1.518	−0.977	−0.990	−1.514
	(0.963)	(1.516)	(1.237)	(1.060)	(1.901)	(1.055)	(0.833)	(1.410)	(1.168)	(0.937)	(1.777)	(0.980)
Observations	3626	3626	3626	3626	3626	3626	3731	3731	3731	3731	3731	3731
WeakID	12.22	9.87	8.50	9.90	3.44	1.29	11.29	9.79	8.93	8.77	3.30	1.70
OverID	0.34	0.30	0.29	0.37	0.29	0.30	0.42	0.34	0.33	0.45	0.34	0.35
Sample	All	All	All	All	All	All	All	All	All	All	All	All
LA FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Note: All specifications additionally include local authority and year fixed effects, as well as an LA-specific structural break computed using an LA-specific Supremum Wald test (Hansen, 1997). The WeakID statistic is the Cragg-Donald F-statistic. The OverID statistic is the p-value associated with the Hansen, Heaton and Yaron (1996) robust version of the Sargan-Hansen statistic. Standard Errors clustered by local authority are in parentheses. *** Significant at the 1% level. ** Significant at the 5% level. * Significant at the 10% level.

7 Conclusions

This paper has investigated the effect of party control on fiscal behaviour by local authorities in the UK, using an instrumental variable approach based on seats won in close elections. Our main finding is that that political control of the council (by Labour, Conservative, or Liberal Democrat parties) has no effect on total expenditure, the composition of expenditure, the property tax rate (council tax per band D property) or total council tax revenue. We find the same null results for capital expenditure, debt, and authorized debt limits. Thus, our results confirm the widely expressed belief that centrally imposed constraints on local government fiscal policy (rate-capping, and more recently, compulsory referenda) hold local government fiscal policy in a tight grip.

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A Appendix

A Funding of Local Authorities by Central Government in the UK: Structure and Trends

As stated in the paper, there are three components of central government funding; the formula grant, specific grants, and redistributed revenue from the business rate. The details of the formula grant are complex, but the important determinants, other than population, are as follows. First, expenditure need per head of population for a particular service is calculated using two main factors: deprivation of the client population and the cost of providing services.[31] Second, local resources are measured by the tax-base, measured as the number of "band D equivalent" properties per capita in the local authority area. The greater an authority's tax base, the more income it can raise from a given increase in the council tax rate. The size of the tax base is then balanced against the expenditure need to calculate a final figure for the formula grant.

The second component is the specific grant component, which comprises a number of special purpose grants, some of which are ring-fenced. By far the most important of these is the Dedicated Schools Grant, which was created in 2006-7 and covers the cost of providing primary and secondary education.

The third is revenue from the local business property tax, or the "business rate" as it is more commonly known. The business rate is a tax levied at a uniform rate across the whole of the UK, on the nominal value of non-residential property. Until 2013-14, the business rate revenue was included in the total for redistribution via the formula grant. This approach limited the financial incentive for local authorities to grow their business rates base. As a result, in England, the government changed the system of local government funding from 2013-14 with the introduction of the business rates retention system. Under the scheme, the local government sector retains 50% of all business rates receipts, and therefore 50% of any growth.[32]

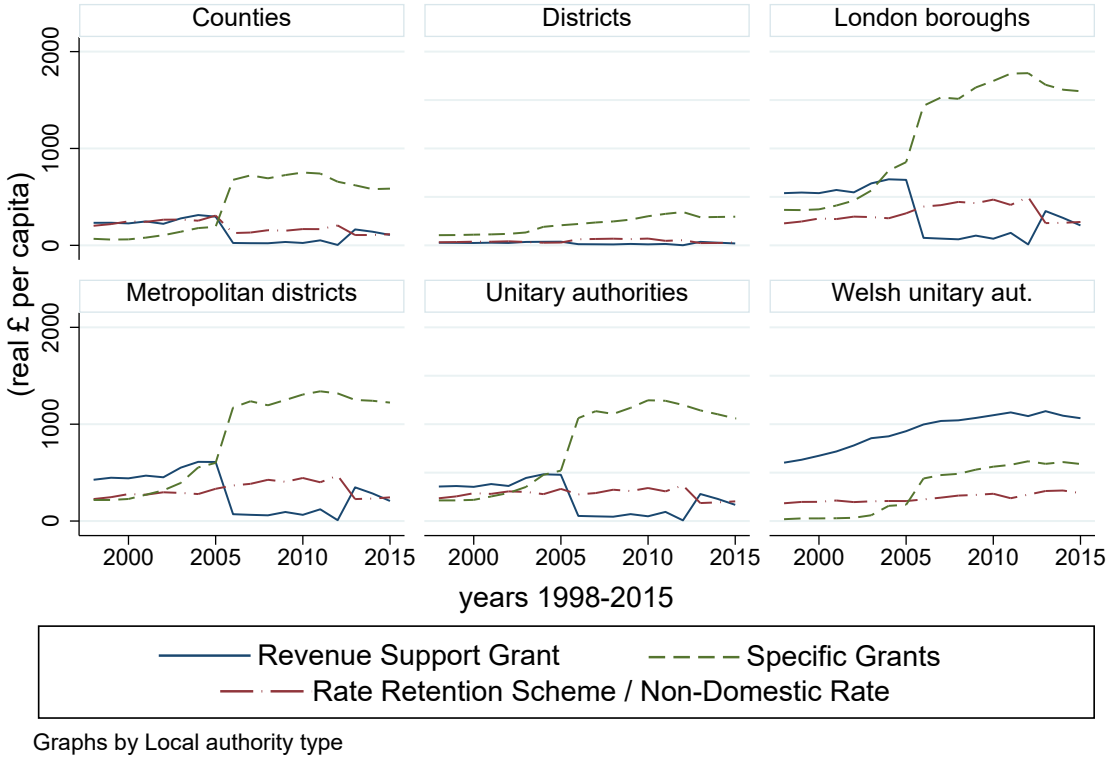
Over the sample period, 1998-2015, Figure A.1 reports the total structure of grants in real per capita terms. As can be seen in Figure A.1, a major structural change in 2006-07 was the introduction of the school grant, which saw a proportionate decrease in the revenue support grant. Excluding English Districts, in 2006-07 in all English and Welsh upper tiers and unitary authorities Specific Grants rose by 102% to £1,016 in real per capita terms and Revenue support grants decreased by 68% to £179 in real per capita terms. A second significant change was in 2013-14, with the introduction of the rate retention scheme in England (as discussed above). As the figures show, English upper tier and unitary authorities on average lost revenue from this reform, which was compensated for by a rise in revenue support grant. In all English local

[31] "The formula for each specific service area is built on a basic amount per client, plus additional top-ups to reflect local circumstances. The top-ups take account of a number of local factors which affect service costs, but the biggest factors are deprivation and area costs." (A guide to the Local Government Finance Settlement, 2010/11, p173).

[32] For more details, see Treasury (2015).

authorities Revenue Support Grants rose by 280% to £114 in real per capita terms, compared to the average of the previous four years, to compensate the introduction of the rate retention scheme. So, overall, Figure A.1 shows that the individual components of the total grant are quite unstable, with several structural breaks.

Figure A.1: The Composition of Total Grants Per Capita



Notes: Rate retention Scheme applies in English local authorities, Non-Domestic Rate applies in Welsh local authorities. Source: Own elaboration based on CIPFA Finance and General Statistics.

B Additional Tables

Table B.1: Balance Tests

	$T^C_{l,t} < 0$			$T^C_{l,t} > 0$			
	n	*mean*	*sd*	*n*	*mean*	*sd*	Diff
Population (Millions)	2158	0.19	0.19	2681	0.19	0.21	0.000
% pop < 15	2010	19.07	1.67	2544	19.05	1.67	$-0.070*$
% pop > 65	2010	17.34	3.64	2544	17.62	3.76	0.095
band D equiv % p.c.	2119	0.36	0.05	2640	0.36	0.05	-0.000
	$T^L_{l,t} < 0$			$T^L_{l,t} > 0$			
	n	*mean*	*sd*	*n*	*mean*	*sd*	Diff
Population (Millions)	2164	0.19	0.20	2205	0.20	0.17	0.000
% pop < 15	2000	19.12	1.67	2090	19.39	1.78	0.068
% pop > 65	2000	17.29	3.49	2090	16.47	3.56	-0.075
band D equiv % p.c.	2133	0.35	0.05	2174	0.35	0.05	-0.001
	$T^{LD}_{l,t} < 0$			$T^{LD}_{l,t} > 0$			
	n	*mean*	*sd*	*n*	*mean*	*sd*	Diff
Population (Millions)	1855	0.19	0.22	2258	0.19	0.19	0.001
% pop < 15	1716	19.00	1.74	2108	18.99	1.60	-0.031
% pop > 65	1716	17.59	4.07	2108	17.55	3.57	-0.101
band D equiv % p.c.	1827	0.36	0.05	2213	0.36	0.05	0.001

Notes: $T^{CON}_{l,t}$,$T^{LAB}_{l,t}$, and $T^{LD}_{l,t}$ are as defined in eq. (4). Diff is the difference in means, controlling for LA fixed effects. *** Significant at the 1% level.** Significant at the 5% level. * Significant at the 10% level. Errors are clustered by LA. We exclude observations for which the instrument is identically 0.

Table B.2: Political Alignment and Grants

Population (Millions)	5.684***	1.420	−2.756***	−2.748***
	(0.527)	(2.261)	(0.255)	(0.253)
popsq	−0.004***	−0.002**	−0.000	−0.000
	(0.001)	(0.001)	(0.000)	(0.000)
% pop < 15	−0.029	−0.081***	0.028***	0.026***
	(0.026)	(0.011)	(0.007)	(0.007)
% pop > 65	−0.054***	0.036***	0.019***	0.016***
	(0.012)	(0.005)	(0.004)	(0.005)
band D equiv % p.c.	−2.539***	0.626	−0.065	−0.077
	(0.646)	(0.472)	(0.249)	(0.251)
LA-Specific Break	−0.539***	−0.488***	−0.236***	−0.237***
	(0.033)	(0.017)	(0.011)	(0.011)
LA Political Alignment				0.012
				(0.007)
Constant	8.014***	6.978***	5.666***	5.761***
	(0.686)	(0.687)	(0.220)	(0.225)
Observations	6173	6173	6173	6173
R^2	0.43	0.70	0.81	0.81
LA FEs	No	Yes	Yes	Yes
Year FEs	No	No	Yes	Yes

Note: Coefficients are OLS estimates from a regression of the form

$$\log \text{grant}_{it} = \beta' X_{it} + \varepsilon$$

LA Political Alignment is a dummy variable taking value 1 when the council is controlled by the same party as is in power nationally.

Table B.3: Partisan Control & Net Current Expenditure

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
L.CON Seat Share	0.016	0.027	0.158	0.114	−0.036	0.002	−0.142	0.035	−0.176
	(0.076)	(0.067)	(0.098)	(0.106)	(0.126)	(0.180)	(0.120)	(0.060)	(0.217)
L.LAB Seat Share	0.078	0.059	0.037	0.032	0.023	0.017	0.035	0.068	0.249
	(0.069)	(0.049)	(0.122)	(0.139)	(0.044)	(0.079)	(0.089)	(0.053)	(0.175)
L. LD Seat Share	−0.130	−0.185	−0.156	0.040	0.015	−0.134	−0.241	−0.141	−0.690
	(0.112)	(0.129)	(0.155)	(0.112)	(0.055)	(0.170)	(0.222)	(0.099)	(0.542)
L.CON Control	0.010	0.017	0.044	−0.012	−0.026	0.019	0.022	0.011	0.162
	(0.020)	(0.019)	(0.036)	(0.047)	(0.021)	(0.034)	(0.029)	(0.013)	(0.172)
L.LAB Control	0.041	0.035	−0.379	0.023	0.003	0.019	0.008	0.021	0.352
	(0.033)	(0.024)	(1.516)	(0.067)	(0.014)	(0.026)	(0.062)	(0.015)	(0.439)
L.LD Control	−0.089	−0.105	−0.021	−0.005	−0.002	−0.034	0.336	−0.038	−1.041
	(0.093)	(0.094)	(0.027)	(0.096)	(0.039)	(0.052)	(0.335)	(0.057)	(1.361)
L.No Overall Control	−0.026	−0.039	−0.018	0.008	0.024*	−0.025	−0.025	−0.028*	−0.198
	(0.024)	(0.030)	(0.024)	(0.092)	(0.014)	(0.037)	(0.026)	(0.016)	(0.181)
Observations	2354	2354	484	3531	512	576	1126	1462	889
Sample	ENDs	ENDs	C	D	LB	MD	UAS	97-2009	2010-
LA FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Note: The coefficient in each cell is the 2SLS estimate of β in the regression model eq. (1) where Y_{lt} is given by the column, and Z_{lt} is given by the row. Standard Errors, clustered by local authority, are in parentheses. *** Significant at the 1% level.** Significant at the 5% level. * Significant at the 10% level. The first two columns restrict the sample to English local authorities that are not district councils (ENDs). These are followed by county councils only, district councils only, London boroughs, metropolitan district councils and unitary authorities in columns (3)–(7) respectively. Columns (8) and (9) restrict the sample to ENDs pre- and post-2010.

Table B.4: Partisan Control & Total Service Expenditure

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
L.CON Seat Share	−0.173	0.019	0.158	0.114	−0.036	0.002	−0.142	0.038	−0.128
	(0.150)	(0.102)	(0.098)	(0.106)	(0.126)	(0.180)	(0.120)	(0.121)	(0.251)
L.LAB Seat Share	0.121	0.048	0.011	−0.028	0.019	−0.025	−0.009	−0.002	0.157
	(0.134)	(0.076)	(0.136)	(0.130)	(0.116)	(0.128)	(0.120)	(0.108)	(0.165)
L. LD Seat Share	0.042	−0.123	−0.085	−0.051	−0.003	0.114	0.057	−0.031	−0.409
	(0.144)	(0.133)	(0.138)	(0.106)	(0.138)	(0.183)	(0.178)	(0.149)	(0.442)
L.CON Control	−0.044	0.009	0.038	0.044	−0.011	−0.012	−0.034	0.004	0.071
	(0.037)	(0.026)	(0.036)	(0.047)	(0.039)	(0.041)	(0.037)	(0.023)	(0.104)
L.LAB Control	0.037	0.026	−0.462	−0.004	0.007	−0.018	−0.083	0.001	0.198
	(0.056)	(0.033)	(1.773)	(0.060)	(0.034)	(0.030)	(0.106)	(0.031)	(0.273)
L.LD Control	0.013	−0.079	−0.001	−0.076	−0.001	0.020	0.497	−0.047	−0.549
	(0.105)	(0.102)	(0.024)	(0.086)	(0.094)	(0.078)	(0.496)	(0.102)	(0.800)
L.No Overall Control	0.033	−0.023	−0.030	−0.085	0.000	0.023	0.028	−0.002	−0.097
	(0.040)	(0.030)	(0.031)	(0.097)	(0.042)	(0.031)	(0.033)	(0.027)	(0.114)
Observations	2353	2353	483	3502	512	576	1126	1461	889
Sample	ENDs	ENDs	C	D	LB	MD	UAS	97-2009	2010-
LA FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Note: See notes for table B.3.

Table B.5: Partisan Control & Tax Requirement Per Capita

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
L.CON Seat Share	−0.400	−0.093	0.158	0.114	−0.036	0.002	−0.142	−0.129	0.159
	(0.269)	(0.178)	(0.098)	(0.106)	(0.126)	(0.180)	(0.120)	(0.174)	(0.364)
L.LAB Seat Share	0.352	0.182	−0.304	0.169	0.150	−0.370	0.127	0.166	−0.084
	(0.256)	(0.156)	(0.489)	(0.120)	(0.168)	(0.244)	(0.259)	(0.195)	(0.225)
L. LD Seat Share	0.003	−0.186	0.064	−0.002	−0.108	−0.263	−0.158	−0.052	0.280
	(0.213)	(0.209)	(0.374)	(0.077)	(0.195)	(0.367)	(0.368)	(0.229)	(0.506)
L.CON Control	−0.099	−0.023	0.068	−0.021	−0.067	0.162	−0.021	−0.025	−0.099
	(0.064)	(0.046)	(0.082)	(0.036)	(0.091)	(0.087)	(0.060)	(0.035)	(0.160)
L.LAB Control	0.120	0.080	−0.919	0.090	0.021	−0.005	0.010	0.046	−0.170
	(0.103)	(0.067)	(3.438)	(0.059)	(0.047)	(0.051)	(0.198)	(0.053)	(0.244)
L.LD Control	−0.037	−0.140	0.009	−0.069	−0.125	−0.257	0.647	0.010	0.508
	(0.168)	(0.161)	(0.079)	(0.076)	(0.130)	(0.254)	(0.722)	(0.129)	(0.792)
L.No Overall Control	0.059	−0.006	−0.062	−0.025	0.074	−0.044	0.004	0.002	0.112
	(0.064)	(0.047)	(0.098)	(0.070)	(0.070)	(0.041)	(0.055)	(0.041)	(0.127)
Observations	2354	2354	484	3531	512	576	1126	1462	889
Sample	ENDs	ENDs	C	D	LB	MD	UAS	97-2009	2010-
LA FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Note: See notes for table B.3.

Table B.6: Partisan Control & Council Tax Per Band D Equivalent

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
L.CON Seat Share	−0.136	−0.167	0.158	0.114	−0.036	0.002	−0.142	−0.335*	0.026
	(0.187)	(0.127)	(0.098)	(0.106)	(0.126)	(0.180)	(0.120)	(0.156)	(0.100)
L.LAB Seat Share	0.090	0.096	0.085	−0.033	0.127	−0.095	−0.032	0.226	−0.098
	(0.148)	(0.114)	(0.101)	(0.094)	(0.136)	(0.149)	(0.109)	(0.153)	(0.073)
L. LD Seat Share	0.049	0.078	0.033	−0.053	0.050	−0.292	−0.080	0.175	0.222
	(0.185)	(0.128)	(0.110)	(0.034)	(0.106)	(0.296)	(0.189)	(0.181)	(0.200)
L.CON Control	−0.035	−0.048	−0.021	0.033	−0.117	0.082	0.015	−0.070*	−0.012
	(0.050)	(0.034)	(0.033)	(0.030)	(0.082)	(0.053)	(0.032)	(0.033)	(0.035)
L.LAB Control	0.026	0.030	0.037	−0.015	0.033	0.026	−0.018	0.050	−0.089
	(0.057)	(0.044)	(0.063)	(0.044)	(0.042)	(0.029)	(0.090)	(0.038)	(0.127)
L.LD Control	0.031	0.056	0.012	−0.039	0.003	−0.158	0.068	0.168	0.230
	(0.129)	(0.085)	(0.025)	(0.032)	(0.067)	(0.153)	(0.220)	(0.167)	(0.325)
L.No Overall Control	0.025	0.043	0.008	−0.054	0.073	−0.047	−0.012	0.042	0.029
	(0.051)	(0.039)	(0.048)	(0.043)	(0.049)	(0.031)	(0.027)	(0.039)	(0.035)
Observations	2288	2288	418	3531	512	576	1126	1396	889
Sample	ENDs	ENDs	C	D	LB	MD	UAS	97-2009	2010-
LA FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Note: See notes for table B.3.

Table B.7: Partisan Control & Net Current Expenditure: Additional controls.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
L.CON Seat Share	−0.001	0.007	0.017	0.130	−0.121	−0.083	−0.066	−0.003	−0.420
	(0.068)	(0.058)	(0.083)	(0.107)	(0.152)	(0.217)	(0.105)	(0.052)	(0.438)
L.LAB Seat Share	0.054	0.068	0.042	0.009	0.036	0.082	0.043	0.068	0.291
	(0.056)	(0.049)	(0.068)	(0.111)	(0.035)	(0.100)	(0.074)	(0.051)	(0.263)
L. LD Seat Share	−0.132	−0.202	−0.070	0.080	−0.002	−0.140	−0.291	−0.097	−0.756
	(0.117)	(0.138)	(0.103)	(0.097)	(0.039)	(0.169)	(0.216)	(0.089)	(0.765)
L.CON Control	0.007	0.014	0.009	−0.013	−0.038	0.012	0.030	0.003	0.158
	(0.019)	(0.018)	(0.023)	(0.036)	(0.026)	(0.038)	(0.028)	(0.012)	(0.191)
L.LAB Control	0.030	0.038	0.020	0.015	0.009	0.028	0.029	0.020	0.354
	(0.026)	(0.024)	(0.044)	(0.052)	(0.013)	(0.029)	(0.054)	(0.013)	(0.711)
L.LD Control	−0.071	−0.105	−0.009	0.004	−0.012	−0.028	0.268	−0.015	−1.253
	(0.081)	(0.095)	(0.018)	(0.090)	(0.033)	(0.051)	(0.305)	(0.044)	(2.643)
L.No Overall Control	−0.024	−0.041	−0.011	0.014	0.030	−0.030	−0.033	−0.020	−0.210
	(0.023)	(0.030)	(0.036)	(0.066)	(0.019)	(0.039)	(0.026)	(0.014)	(0.247)
Observations	2275	2275	405	3209	512	576	1126	1383	889
Sample	ENDs	ENDs	C	D	LB	MD	UAS	97-2009	2010-
LA FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Note: The coefficient in each cell is the 2SLS estimate of β in the regression model eq. (1) where Y_{it} is given by the column, and Z_{it} is given by the row. Each specification includes the following controls: Population, Population^2, percentage of the population aged under 15, the percentage of the population aged over 65, and the number of Band D equivalent properties per capita. Columns (2)–(9) additionally allow for an LA-specific structural break computed using an LA-specific Supremum Wald test (Hansen, 1997). Other details as for table B.3

Table B.8: Partisan Control & Total Service Expenditure: Additional controls.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
L.CON Seat Share	−0.071	0.011	0.013	0.081	−0.110	−0.082	−0.063	−0.082	−0.055
	(0.099)	(0.082)	(0.084)	(0.101)	(0.155)	(0.218)	(0.105)	(0.079)	(0.285)
L.LAB Seat Share	0.048	0.020	0.049	0.005	0.048	0.049	−0.054	0.011	0.097
	(0.089)	(0.069)	(0.065)	(0.123)	(0.132)	(0.148)	(0.109)	(0.086)	(0.135)
L. LD Seat Share	0.007	−0.080	−0.013	−0.065	−0.018	0.117	0.030	0.095	−0.260
	(0.138)	(0.121)	(0.113)	(0.102)	(0.148)	(0.212)	(0.160)	(0.120)	(0.347)
L.CON Control	−0.019	0.008	−0.004	0.035	−0.033	−0.034	−0.017	−0.018	0.075
	(0.027)	(0.022)	(0.027)	(0.044)	(0.049)	(0.041)	(0.031)	(0.018)	(0.107)
L.LAB Control	0.016	0.012	0.014	0.006	0.016	−0.012	−0.083	0.001	0.147
	(0.039)	(0.030)	(0.043)	(0.058)	(0.038)	(0.029)	(0.100)	(0.025)	(0.333)
L.LD Control	0.006	−0.041	0.004	−0.080	−0.015	0.033	0.368	0.051	−0.635
	(0.092)	(0.079)	(0.020)	(0.089)	(0.107)	(0.089)	(0.473)	(0.088)	(1.349)
L.No Overall Control	0.012	−0.018	−0.008	−0.066	0.007	0.022	0.020	0.020	−0.095
	(0.030)	(0.026)	(0.032)	(0.077)	(0.050)	(0.029)	(0.028)	(0.024)	(0.127)
Observations	2275	2275	405	3209	512	576	1126	1383	889
Sample	ENDs	ENDs	C	D	LB	MD	UAS	97-2009	2010-
LA FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Note: See notes for table B.7.

Table B.9: Partisan Control & Tax Requirement Per Capita: Additional controls.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
L.CON Seat Share	−0.281	−0.150	0.019	0.106	−0.117	−0.102	−0.047	−0.193	0.529
	(0.168)	(0.129)	(0.084)	(0.108)	(0.159)	(0.211)	(0.103)	(0.142)	(0.422)
L.LAB Seat Share	0.186	0.144	0.200**	0.220*	0.128	0.021	0.000	0.250	−0.138
	(0.139)	(0.114)	(0.076)	(0.097)	(0.165)	(0.115)	(0.106)	(0.150)	(0.142)
L. LD Seat Share	0.038	−0.052	−0.038	−0.073	0.020	−0.494	−0.134	−0.076	0.343
	(0.168)	(0.154)	(0.104)	(0.061)	(0.132)	(0.453)	(0.182)	(0.213)	(0.389)
L.CON Control	−0.075	−0.043	−0.043	−0.008	−0.152	0.097	0.031	−0.039	−0.041
	(0.046)	(0.035)	(0.030)	(0.024)	(0.116)	(0.051)	(0.030)	(0.029)	(0.102)
L.LAB Control	0.060	0.055	0.115	0.108*	0.048	0.063	0.026	0.066	−0.014
	(0.054)	(0.045)	(0.078)	(0.049)	(0.054)	(0.035)	(0.081)	(0.037)	(0.188)
L.LD Control	0.031	−0.048	−0.004	−0.136*	−0.006	−0.185	−0.058	0.016	−0.239
	(0.117)	(0.110)	(0.025)	(0.069)	(0.101)	(0.142)	(0.244)	(0.120)	(0.798)
L.No Overall Control	0.052	0.023	0.045	−0.067	0.066	−0.071	−0.028	−0.004	0.046
	(0.047)	(0.037)	(0.062)	(0.051)	(0.050)	(0.044)	(0.026)	(0.037)	(0.085)
Observations	2275	2275	405	3209	512	576	1126	1383	889
Sample	ENDs	ENDs	C	D	LB	MD	UAS	97-2009	2010-
LA FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Note: See notes for table B.7.

Table B.10: Partisan Control & Council Tax Per Band D Equivalent: Additional controls.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
L.CON Seat Share	−0.301	−0.174	0.018	0.110	−0.132	−0.089	−0.066	−0.264*	0.071
	(0.182)	(0.123)	(0.084)	(0.108)	(0.157)	(0.214)	(0.105)	(0.128)	(0.123)
L.LAB Seat Share	0.113	0.100	0.165*	0.058	0.121	−0.040	−0.054	0.198	−0.112
	(0.132)	(0.105)	(0.068)	(0.040)	(0.127)	(0.094)	(0.098)	(0.132)	(0.078)
L. LD Seat Share	0.176	0.063	0.031	−0.058*	−0.005	−0.296	−0.066	0.090	0.246
	(0.164)	(0.147)	(0.101)	(0.028)	(0.098)	(0.298)	(0.162)	(0.181)	(0.217)
L.CON Control	−0.081	−0.050	−0.051	0.007	−0.124	0.071	0.023	−0.056*	0.000
	(0.049)	(0.033)	(0.030)	(0.011)	(0.090)	(0.041)	(0.030)	(0.025)	(0.035)
L.LAB Control	0.025	0.032	0.084	0.025	0.042	0.033	−0.020	0.049	−0.180
	(0.051)	(0.042)	(0.059)	(0.019)	(0.040)	(0.022)	(0.079)	(0.032)	(0.354)
L.LD Control	0.153	0.050	0.005	−0.049	−0.021	−0.109	−0.010	0.098	0.634
	(0.121)	(0.090)	(0.023)	(0.031)	(0.073)	(0.087)	(0.179)	(0.129)	(1.263)
L.No Overall Control	0.073	0.042	0.060	−0.031	0.054	−0.044	−0.016	0.029	0.031
	(0.052)	(0.040)	(0.067)	(0.024)	(0.041)	(0.027)	(0.024)	(0.037)	(0.042)
Observations	2275	2275	405	3209	512	576	1126	1383	889
Sample	ENDs	ENDs	C	D	LB	MD	UAS	97-2009	2010-
LA FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Note: See notes for table B.7.

Table B.11: The Determinants of Local Authority Debt Ratios

	$\frac{\text{Debt}}{\text{Boundary}}$						$\frac{\text{Debt}}{\text{Limit}}$					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
L.CON Seat Share	0.222						0.228					
	(0.249)						(0.203)					
L.LAB Seat Share		0.292						0.120				
		(0.247)						(0.212)				
L. LD Seat Share			−0.704						−0.508			
			(0.462)						(0.311)			
L.CON Control				0.097						0.085		
				(0.080)						(0.062)		
L.LAB Control					0.178						0.075	
					(0.161)						(0.131)	
L.LD Control						−0.856						−0.512
						(0.620)						(0.328)
Population (Millions)	−0.542*	−0.513**	−0.674**	−0.429*	−0.480	−0.390	−0.505**	−0.416**	−0.570**	−0.387*	−0.404*	−0.398*
	(0.286)	(0.238)	(0.263)	(0.247)	(0.298)	(0.273)	(0.252)	(0.203)	(0.221)	(0.212)	(0.211)	(0.209)
Population^2	0.000	0.000*	0.001**	0.000	0.000	0.000*	0.000*	0.000	0.001**	0.000	0.000	0.000*
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
% pop < 15	0.005	0.018*	0.019*	0.005	0.018	0.007	0.002	0.011	0.013	0.002	0.011	0.003
	(0.010)	(0.011)	(0.011)	(0.010)	(0.012)	(0.017)	(0.008)	(0.008)	(0.008)	(0.008)	(0.009)	(0.012)
% pop > 65	0.008	0.024**	0.021**	0.010*	0.027**	0.021	0.005	0.017**	0.016***	0.009*	0.018*	0.014*
	(0.008)	(0.010)	(0.008)	(0.006)	(0.013)	(0.013)	(0.007)	(0.008)	(0.005)	(0.005)	(0.010)	(0.007)
band D equiv % p.c.	−1.141***	−0.797*	−0.651	−1.262***	−0.693	−0.880*	−1.162***	−0.995**	−0.788**	−1.266***	−0.947**	−0.950***
	(0.338)	(0.436)	(0.435)	(0.366)	(0.534)	(0.470)	(0.308)	(0.388)	(0.356)	(0.331)	(0.452)	(0.355)
Observations	3626	3626	3626	3626	3626	3626	3731	3731	3731	3731	3731	3731
WeakID	12.22	9.87	8.50	9.90	3.44	1.29	11.29	9.79	8.93	8.77	3.30	1.70
OverID	0.15	0.27	0.51	0.21	0.25	0.86	0.35	0.23	0.84	0.46	0.23	0.96
Sample	All	All	All	All	All	All	All	All	All	All	All	All
LA FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Note: All specifications additionally include local authority and year fixed effects, as well as an LA-specific structural break computed using an LA-specific Supremum Wald test (Hansen, 1997). The WeakID statistic is the Cragg-Donald F-statistic. The OverID statistic is the p-value associated with the Hansen, Heaton and Yaron (1996) robust version of the Sargan-Hansen statistic. Standard Errors clustered by local authority are in parentheses. *** Significant at the 1% level.** Significant at the 5% level. * Significant at the 10% level.