

**FISCAL CONSERVATISM OR FISCAL PRUDENCE?**

**LOCAL SPENDING AND TAXATION IN INDEPENDENT COUNCILS**

**Arthur Midwinter and John Moxen**

**Introduction**

The demise of "Independents" in local government has long been forecast, yet the evidence from recent elections is that their death will be a slow, lingering process. Reorganisation of local government gave a fillip to the reduction in the number of Independents, as local political systems were merged and party politics increased but, since 1977, only modest decline has taken place, particularly in Scotland.

".....independents are more important at the district council level in Scotland than in England and Wales: after the 1974 elections they controlled twenty-one of the fifty-three district councils (39.6%) and were the largest single category on one other district council. The 1977 district elections in Scotland did not fundamentally change the pattern of independent predominance in the rural areas. Independents also controlled in 1977 the three most rural regional councils and the three all-purpose island authorities."<sup>(1)</sup>

A decade later, in 1988, councillors of the Independent philosophy constituted the second largest group at the Scottish district elections, although in absolute terms, the numbers of Independent councillors declined<sup>(2)</sup>. The philosophy of independence "has deep roots in the political development of Britain"<sup>(3)</sup>, but its survival as a dominant political culture is mainly in rural areas. Independent politics are non-partisan, whereby candidates are chosen on their personal qualities to represent the community. Dyer and Sewel observed that Labour candidates in Peterhead 'ran up against the refusal of the electorate to "vote-the-ticket" '<sup>(4)</sup>. This permeates the council chamber where 'consensus' is also valued. Independent councillors regard their areas as having common interests. Consensus decision-making is the norm, and divisions are few<sup>(5)</sup>. As Dyer wryly observed:

"independent politics is essentially administration without strategy, and policy can be defined as the approach taken to each item as it presents itself."<sup>(6)</sup>

Studies of the pre-reorganisation authorities found finance committees to be the key mechanism of integration. Dyer argues that:

"Probably the most important councillor was the convener of finance in that his committee exercised some kind of scrutiny over expenditure....."

as it had

"responsibility for ensuring that strong cases were advanced in defence of any request for appropriations....."

but that:

"it lacked the expertise to evaluate both the need for and performance of a particular service."

Bealey and Sewel's research support this view:

"Finance acted as a resource committee. Recommendations by the committees involved with the spending of money came before it and, perhaps most importantly, the convener of the Finance Committee, the Burgh Treasurer, through the Committee recommended the annual rate levy to the Council....."

and moreover,

"Becoming Finance Convener, or Burgh Treasurer, was recognised by Councillors as becoming a lynchpin in local government decision-making. In the cost-conscious Peterhead Council an observation from the Treasurer to the effect that a proposed project had significant expenditure and hence rating implications was an effective kiss of death."<sup>(7)</sup>

Dyer and Sewel's study of the new Banff and Buchan District Council identify 'retrenchment' as a central political value. This was reflected in low tax, low expenditure and high rents policies in municipal politics before reorganisation, and this fiscal conservatism was reinforced after reorganisation.

Such studies provide valuable insights to local political behaviour in non-partisan councils. They have, however, serious limitations as the basis for the development of a more general theory of independent politics. Firstly, they tend mainly to be case studies. Thus we have detailed analysis of actors and issues in specific authorities, but little serious comparative analysis. Evaluating the consequences of keeping party politics out of local government requires a basis for comparison. Dyer and Sewel, for example, make observations about Banff and Buchan's position in the rates league table, but provide no analysis of the service consequences of this in contrast to other councils. They also note that Banff and Buchan's budgets over a three year period have all been within government guidelines, and that only five other

councils out of the 53 Scottish districts had a similar record. They argue:

“Retrenchment is such a widely shared value, among officials and councillors alike, that only rarely does it have to be made explicit.....”

“The reason for the acceptance of the guideline figure is determination to avoid the grant penalty. The idea that every £ of expenditure will cost the ratepayers more than a £ is so offensive to the value of retrenchment that it is never seriously contemplated.”<sup>(8)</sup>

When one looks at Banff and Buchan’s record over a number of years, it does not look so clearly an example of retrenchment ethic. Indeed, the very year after the Dyer and Sewel study, the guideline was exceeded and penalty incurred. Over a ten year period, the council exceeded the guideline on five years out of ten, once by as much as 63%. In short, the acceptability of the guideline, and the subsequent rates increase will also depend on the service consequences of these decisions. There is now considerable evidence that councils of all persuasions have been adopting at least ‘policy maintenance’ strategies over the decade of retrenchment, whilst others have incurred growth<sup>(9)</sup>.

Secondly, interpretations of the impact of Independent politics need to distinguish between counties and small towns. It is interesting that in both rural counties dominated by landowners and small towns dominated by small businesses, retrenchment emerges as a dominant value. Yet both had distinctive social systems. Dyer’s study of Kincardineshire makes this point. He saw traditional values preserving elements of traditional leadership in rural areas in the form of the ‘lairds’ (landlords). The County Council consisted largely of social leaders and their representatives, on the basis of hierarchical values in the social system, whilst the burghs lacked oligarchies and natural leaders. It may be that these reflect the power of property as, for much of the century, the franchise reflected property. The extension of democracy and the welfare state has however created a situation of flux and a further major change occurred with the reorganisation of local government. The amalgamation of old authorities and the creation of larger wards served to erode the particularism of the relationship between elector and councillor. It resulted in the demise of the landlords. For example, only one laird survived as a councillor following the reorganisation of local government in the Scottish Highlands. Whilst the value of community remained dominant, members certainly did and do distinguish between the ‘lairds and the people’. (Private interview with the author).

These limitations of scope, time, and interpretation suggest that a more comprehensive analysis of fiscal behaviour in independent councils is required. Whilst Independents may concur on the undesirability of partisan politics, it seems questionable that the retrenchment ethic would necessarily apply to all Independents. Dislike of parties is not the same thing as dislike of politics. The ideology of low spending and low rates found in several studies is,

of course, a form of fiscal conservatism. Yet Independents are by no means all political conservatives. Indeed, many such Independents are consistently critical of the services they inherited from the older county councils which were dominated by the landed class. In short, it would be wrong to equate Independent politics with fiscal conservatism without more systematic analysis, and we seek to undertake such analysis in the remainder of this paper.

#### Local Fiscal Behaviour Since Reorganisation

Most studies of Independent politics focus on the pre-reorganisation local authorities. Reorganisation of local government, as noted above, ended the geographical basis of the traditional local power structure. Whereas the old councils had limited functions and resources, the new regions in Scotland had an impressive array of functions, and considerable rate raising capacity.

Our empirical data is drawn mainly from Scottish regional and island councils. These authorities are responsible for about 90% of local expenditure in Scotland, the districts having a more limited role. They provide a useful focus for us as they provide examples of the demise and survival of Independent politics. In Grampian and Tayside, the pattern of urban politics developed in the cities of Aberdeen and Dundee became the dominant form in post-reorganisation regional politics. Several erstwhile Independents adopted party labels under the new system.

In the mainland rural areas, Borders, Dumfries and Galloway and Highland, and the three Islands Councils, Independents remain by far the largest grouping of councillors, although a trend to partisanship, usually in the form of an opposition, can be found. They provide a distinctive form of local politics. As Leach et al have observed:

“In the Independent councils, what is distinctive is that the committees and the full council remain the areas where decisions are taken..... The dominant characteristics of the process of committee decision-making in these Independent authorities is informality.”

The Widdicombe researchers also found considerable support for this form of politics.

“None of the Independent councils felt a stronger executive style akin to the cabinet concept was appropriate to local government. It would certainly be unacceptable to the Independents, as it is clearly contradictory to their philosophy of free decision-making based on the merits of the issue”.

This research revealed the survival of Independent values into the post-reorganisation period. Independents continue to ‘see themselves as solid citizens behaving sensibly in the best interests’ of their communities, involved

in the 'efficient management of local affairs', without 'needless rhetoric and posturing'.<sup>(10)</sup>

Using Scottish regions and islands, therefore, allows comprehensive comparison of fiscal behaviour in Independent councils with the rest of Scotland. Secondly, for most of this period, a Conservative Government has been in power and promoting a brand of fiscal conservatism not unlike the low rate, low expenditure ideology identified in the aforementioned studies. For most of the post-reorganisation period, councils have operated in conditions of fiscal stress; i.e. faced with the rising cost of providing existing services and the declining availability of existing resources in the form of government grants. In the past fifteen years, central government has acquired new powers of financial intervention and control, including current expenditure guidelines, the application of cash limits to government grants, power of general abatement of grant, limits on housing revenue account expenditure, and rate-capping<sup>(11)</sup>.

If there is a general ethic of retrenchment, one would expect Independent councils to respond positively to a strategy to reduce expenditure. While younger, more assertive urban councillors readily engaged in conflict with the Conservative Government over their expenditure, Independent councils remained aloof from what was essentially a high profile, ideological clash<sup>(12)</sup>. But does this mean they complied with government, and did they have a retrenchment ethic?

There are three ways of examining the fiscal behaviour of Independent councils. Firstly by examining their expenditure performance since 1975, second by examining their performance against government guidelines and, finally, their performance over rates.

At reorganisation, the new councils expenditure very much reflected the inherited budgets from the old authorities. One dominant characteristic of these authorities, however, generally overlooked in previous analysis of their fiscal behaviour, is their low rating base and consequent heavy dependence on government grant.

With a government in power seeking expenditure reductions, and the gearing effect (ratio of grant to rates in local income) such that increases in expenditure above guideline could only be achieved at high cost to local ratepayers, a dominant ethic of retrenchment would lead us to predict low spending.

Table 1 shows that the Independent councils were not low spenders in 1975-6.

Table 1

Local Government Expenditure in 1975-6 (Independent Councils)

	Net Expenditure Per Capita £	Percentage Funded by Grant %
Borders	168.89	79
Dumfries	149.88	73
Highland	208.39	80
Orkney	215.87	89
Shetland	229.91	92
Western Isles	234.83	91
Scotland	171.67	67

Source: Calculated from Rating Review

They were in fact high spending councils, but this reflected their high needs and costs, and low resources which provided them with high levels of grant. In the next ten years, faced with declining grant, they remained high spenders, engaging in resource substitution to maintain and, in most cases, to improve in real terms their services. From Table 2, we can see that by 1986-7, the four Highland and Islands councils continued to incur high levels of net expenditure, and this had grown above the Scottish average after the election of the Conservative Government in 1979. Of course, the special case of Shetland, and to a lesser extent Orkney, should be noted where high expenditure was incurred to service the oil industry. In the period 1975-8, the Labour Government was also pursuing expenditure reductions and the Independent councils, with the exception of Orkney and Shetland, grew below average. Since 1982, however, that trend has changed. Both Highland and Western Isles voted big increases in the 1978-82 period, and in the 1982-6 councils, spending in all six grew faster than the Scottish average. This occurred during a period of rapidly declining grant. Part of the explanation may be found in the decline in importance of councillors from the pre-reorganisation period<sup>(13)</sup>. No clear evidence of a retrenchment ethic emerges, but there is an increasing tendency for above average spending growth.

Several studies have pointed to the importance of government guidelines in local fiscal behaviour as spending in excess of them can result in both grant penalties and rate-capping. Since 1983, grant penalties have been directly related to the degree of overspending. The development of guidelines has been characterised by guideline instability, with four different methods of calculation used in the first six years. Since 1983, guidelines have been based on a combination of authorities' client group based needs assessment, and a stability factor to take account of authorities' existing budgets. This serves to bring guidelines closer to budgets<sup>(14)</sup>.

Table 2

**Expenditure Growth in Independent Councils in Post Reorganisation Period**

	1975-78 (%)	1978-82 (%)	1982-86 (%)
Borders	57.4	75.5	26.4
Dumfries	59.9	83.9	27.2
Highland	58.8	91.0	20.0
Orkney	118.3	68.6	19.7
Shetland	89.2	289.9	33.5
Western Isles	74.8	99.5	24.5
Scotland	71.0	86.1	18.9

Source: Rating Review – The periods selected fall between regional elections.

In Table 3 we examine the performance of authorities against these guidelines, for it could be argued that the spending growth identified earlier is not necessarily inconsistent with government strategy as it varies the targets given to authorities. This table reveals a wide range of budgetary behaviour between Independent councils. Dumfries and Galloway, and to a lesser extent Borders, have regularly budgeted close to guidelines. Highland Region began spending less than guidelines, then its excess grew consistently until 1982-3, before declining until it too budgets at or around guidelines. Western Isles shows a similar pattern, but with a high degree of excess between 1979 and 1983.

Table 3

**Guideline Performance by Independent Councils Since 1978**

	1978	1979	1980	1981	1982	1983	1984	1985	1986
	%	%	%	%	%	%	%	%	%
Border	-1.9	-0.7	+0.3	+2.7	+1.0	-	-0.1	-	-
Dumfries	-3.0	-0.5	-0.6	-0.1	-	-	-	-	-
Highland	-1.9	+3.7	+2.7	+3.1	+12.1	+10.4	+3.1	-	-0.1
Orkney	+25.7	+33.9	+20.3	+40.1	+25.8	+15.3	-0.2	-0.8	-
Shetland	+8.9	+42.1	+66.4	+72.4	+79.5	+46.1	+3.1	-	-
Western Isles	-1.6	+3.1	+8.2	8.1	+13.4	+17.6	+0.7	-	-
Scotland		+3.3	+4.6	+9.2	+8.3	+4.7	+4.2	+3.2	+3.9

Source: Rating Review and Scottish Office Finance Circulars.

We would argue that these figures do not support the retrenchment thesis. It could be argued that their behaviour since 1984 is a confirmation of this ethic, as when penalties were linked directly to guideline excesses, all six fell in line. In response to that, we would argue that government adjustments

produced more attainable guidelines for the higher spenders (increasing Shetland's by about 70% in two years) and thus reached an accommodation with them. Moreover, since then, most of the rural councils have had relative increases in their guidelines. Finally, whilst we accept that guideline compliance became commonplace after the linking of penalties to excesses, and that this could be as high as two pounds for every pound spent above guidelines, we could argue that this is evidence of fiscal prudence rather than fiscal conservatism. In short, whilst both central and local government moved towards each other, the government made considerable accommodation with local spending levels. Had the authorities had deeply held retrenchment ethics, these changes would not have been necessary.

A similar pattern occurred over rate fund contributions to council housing earlier. Previously councils could spend what they wished on this issue. The Conservative Government introduced a housing expenditure limit, which reduced authorities' capital allocations pro-rata with overspending of the expenditure limit. Whereas, before this, high levels of spending could be found in many Independent councils, most of them met the limit thereafter rather than lose capital allocations, unlike most Labour councils who continued to subsidise rents and lose capital allocations<sup>(15)</sup>.

The reason we describe this as fiscal prudence is that it maximises expenditure and income to the local area. Independent councils in general argue there is little point in exceeding guidelines if the net result is a loss of resources, and therefore activity, from the local economy.

Their responses over guidelines and the housing limits are therefore consistent with and not necessarily evidence of fiscal conservatism. Councils were clearly happy to spend above targets until such strategies brought penalties. In the absence of ideological conflict, such behaviour was unnecessary and brought adverse consequences to local economic activity. Indeed, many rural councils actively pursued grantsmanship strategies to increase their guidelines and their capital allocations<sup>(16)</sup>. Independent councils' behaviour varied, with the Highlands and Islands councils frequently overspending prior to 1983, then aligning budgets with guidelines to avoid penalties thereafter. But, once again, no clear systematic evidence of a common retrenchment ethic exists. Moreover, this strategy became commonplace by 1987, when 40 councils in total met their guidelines.<sup>(17)</sup>

Finally, we examine the rating consequences of these expenditure decisions. Earlier studies suggest that concern for the achievement of a low rate was a dominant one in Independent councils. If that predisposition is reinforced with pressures of fiscal stress, one would expect to find Independent council consistently setting low rates.

The measure we have chosen is the growth in rate-borne expenditure. Whilst rate poundage levels are a direct measure of fiscal behaviour, they are

capable of manipulation. Inherited deficits on balances from previous years can affect the tax level in any given year. Secondly, authorities with growing economies, such as Orkney, Shetland or Grampian, can find their capacity to restrain their rate poundages increases with growth in the total rateable values in their areas. (They raised more for a penny rate and, if no expenditure increases occurs, taxation levels will fall). Finally, we have also included growth of net expenditure, and grant loss, to examine the effect of fiscal stress.

Table 4 shows that a substantial shift in the financing of local services took place in the period since 1975. The Independent councils have all levied increases in rate-borne expenditure above the Scottish average, and four of the six have voted spending increases above the Scottish averages, during a period when four of these councils faced grant reductions greater than the Scottish average. Far from behaving as the retrenchment ethic would predict, the councils have clearly sought to protect and improve councils at the cost of rates increases.

Table 4

Changes in Net Expenditure, Rate-born Expenditure and Grant Levels

	Growth in Rate-borne Expenditure %	Growth in Net Expenditure %	Change in Grant Share %
Borders	+590	+340	15.8
Dumfries	+549	+367	-12.6
Highland	+646	+327	-17.3
Orkney	+1745	+397	-44.2
Shetland	+8294	+77	-67.8
Western Isles	+797	+414	-6.0
Scotland	+501	+354	-13.8

Source: Rating Review

Independent Politics and the Poll Tax

In 1989-90, the Government introduced a new system of local taxation known as the community charge or poll tax. It is basically a simple per capita tax, with a rebate system for people on low income. The objective of the reform is stated to be promotion of financial discipline in local government through the electorate, on the assumption that if we all have to pay for services, then there will be an effective reduction in demand for services, and thus expenditure.

In rural Scotland, however, the tax has resulted in high tax increases in remote areas, where low valued properties resulted in low rates under the old system with the consequence that campaigns for equal services have arisen.

Secondly, the fiscal prudence ethic was in part a response to grant penalties and the withdrawal of such penalties on the introduction of the poll tax removed some of the constraints on expenditure.

The first grant settlement under the community charge was a generous one. The Government produced a set of community charge estimates as targets for local authorities. We examined the performance of the six independent councils in terms of expenditure and taxation. Four of the six increased expenditure by more than the Scottish average and two were close to it. Big increases were budgeted for in Highland, Orkney and Western Isles. Five of the six also set tax levels well in excess of Government estimates.

Table 5

Spending and Taxation 1989-90

	Net Expenditure increase over 1988-89 %	Community Charge Excess over Scottish Office Estimates %
Borders	+7	+36
Dumfries	+6	+31
Highland	+9	+21
Orkney	+12	+76
Shetland	+6	-44
Western Isles	+9	+35
Scotland	+6.5	+16

Source: Statistics derived from Rating Review

Conclusions

The ethic of retrenchment is a value of particular Independents, not a general ethic. Evidence from a number of studies shows that non-partisanship cannot be equated with fiscal conservatism per se. Rather, Independent politics should be seen more simply as the rejection of party organisation in local government. That is, non-partisan should not be equated with non-political in the broader sense. Local governments take decisions about resource allocation, service provision, and local taxation, and these are the essence of politics. In the post-reorganisation period, and in particular since 1978, Independent councils in general have increased their spending levels relative to the average, but even between themselves, considerable variation exists, with Borders and Dumfries displaying more fiscal conservatism than the councils in the Highlands and Islands.

Indeed, rural Scotland has increasingly returned non-Conservative MPs

and MEPs. It would be surprising therefore, with the mix of political attitudes found among councillors, if their budget outputs conformed to the stereotype of fiscal conservatism. Independent politics contain more variety than has hitherto been acknowledged. For example, Jordan found three contrasting attitudes to the financing of council housing to assist oil development in the Inverness area<sup>(18)</sup>.

Moreover, following the reform of local government finance in 1989, Independent councils were in the forefront of the disagreement with the government over community charge levels. Borders and Highland Regions were subject to fierce criticism from the Scottish Office for setting tax levels in excess of government predictions. Ironically, this tax reform which was intended to increase pressure on councillors to spend less looks as if it will have the opposite effect in rural politics<sup>(19)</sup>.

The label 'Independent politics' tells us more about **how** affairs will be conducted in such councils than **what** the outcomes of their deliberations will be. Independents are by no means all fiscal conservatives. Local fiscal behaviour is varied, and reflective of the individual political values of the councillors themselves. If there is a general pattern, it is what we have called fiscal prudence ethic, which emphasises the maximisation of expenditure and grants, and avoids political confrontation with the government, yet has facilitated service expansion in a decade of retrenchment.

Arthur Midwinter, University of Strathclyde.  
John Moxen, Robert Gordon's Institute of Technology, Aberdeen.

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