English local government finance in transition: towards the 'marketization of income'.

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Abstract

This study examines the impact of English local government finance reform after the 2008 International Financial Crisis. It uses advances in case-based methods, combined into Dynamic Pattern Synthesis, to explore comparative changes. Reductions in central government financing threaten the continuation of local services. The results show significant political and management differences as local authorities adapt to manage their survival. Disadvantaged areas are worse affected and to deliver local services are increasingly dependent on 'market innovations', and local enterprise to secure income. Previous research has explained the marketization of supply, this new research explores the turn to the 'marketization of income'.

Key words local government financial reform marketization dynamic pattern synthesis.

Introduction

Reducing government expenditure as a proportion of Gross Domestic Product (GDP) has been a goal of UK governments since 2010. Local government financial reform in England is one of the key policy instruments used to achieve this (Kitromilides, 2011; Ferry and Murphy, 2018). Local council tax rises are limited by central government, but local councils are transitioning to 'self-funding' (LGIU, 2017a). The Revenue Support Grant (RSG) that flows from central to local government is being phased out to be replaced by the Business Rates Retention Scheme (BRRS) (Javid, 2017). Business rates in the UK are local taxes raised directly from businesses. Previously most of this money was pooled by central government and then distributed to local areas based on a formula. The BRRS allows local government to keep more of the money it raises from local businesses to balance its budget. In addition, The Localism Act (2011) gave local authorities flexibility to act as a commercial enterprise to acquire income. We argue this represents a significant shift in the funding model of English local government and an addition to the culture of marketization.

Changes to local government finance follow 40 years of so called 'New Public Management' (NPM) reforms that intensified the use of business methods (Hood, 1991). An aspect of these reforms was the marketization of the supply of services (Martin, 2002). This led to a growth in contracting out. This became widespread in many countries (Greve, 2006; Nemec, Merickova, & Vitek, 2005; Pollitt & Bouckaert, 2017). Non-government suppliers play a substantial role across the public sector in England (NAO, 2016a).

After 2010, the changes sought market solutions for local government income, not just the supply of public services. For example, in 2019, the Auditor General of the National Audit Office (NAO) reported that local government was increasingly investing in commercial property to find creative ways to meet their income needs. He noted that such approaches to income generation varied between local areas (Watkins, 2019).

Our research investigated the impact of these changes to funding, using a sample of local unitary authorities (UAs) in England. It examined patterns of similarity and difference. Our contribution is to conceptualise the effect on the continuing process of marketizing government. We use a contemporary case based method, Dynamic Pattern Synthesis (DPS) that allows both examination of overall quantitative trends alongside individual case differences and how these progress over time. The research questions were:

1. What effect are changes to local government funding having for Unitary Authority income and spending patterns?
2. What specific local traits affect levels of income and spend in UA's?
3. Does 'third party spend' differ between UAs?
4. Does the political composition of a UA influence financial trends?

New Public Management and the marketization of local services

New Public Management (NPM) was a widely used term to describe an historical set of changes to the delivery of public services (Hughes, 2012). There is no consensus as to where NPM first emerged from, with many seeing it as an extension of the neo-liberal political consensus of the 1980s (Pederson and Lofgren, 2012). Osborne and Gaebler's (1992) influential US book, *Reinventing Government*, labelled public administration as an inefficient and ineffective means by which to allocate public resources, and set out a vision of using contracting with external providers. These practices focused on output efficiency (Peters, 2012; Hughes, 2012; Kuipers, et al, 2014). The methods of implementation included the introduction of performance measures and the disaggregation of public bodies into delivery units whose services could be contracted. As part of an international reform agenda, the marketization of service provision was taken up by governments of all political persuasions in many countries (Pollitt, 2013; Pollitt & Bouckaert, 2017) and included local governments. Contracts were not always with private providers, but sometimes with in house departments and often with non-government organisations (NGOs). With the latter, Hansen & Lindholst, (2016) noted that marketization could transform the culture of organisations.

The Conservative UK Governments 1979-1997 imposed cash limits and Compulsory Competitive Tendering (CCT) on local authorities. These reforms were intended to stop increased local taxation and overspending (Boyne, Powell and Ashworth, 2001). This was accompanied by making local government increasingly dependent upon central grant funding. This marketization continued throughout the New Labour Governments, 1997-2010 (Martin, 2002). By 2001, central grant funding accounted for nearly 80% of local spending, and there was conditionality to impose local marketization.

The three decades of reforms from 1979 to 2010 can be summarised as reducing local government financial autonomy. Local government became more dependent on central government grants, with less local taxation. Increasing dependence on central government included requirements to use marketization in the delivery of services.

These changes in the supply of services have not been without their critics. Vyas, (2016) found that government and contractor could have conflicting goals with risks to the public interest. Similarly, Dunleavy et al., (2006) and Pollitt and Bouckaert, (2017) argued that markets resulted in the disaggregation of local services. For example, contracting expertise is not shared between authorities who then are unable to manage monolithic contracts with large providers who focus on delivering a standardised model that ignores some needs (Alford and O'Flynn, 2012). A recent critique of supply issues noted accountability confusion for the public and concluded outsourcing raised bureaucratic costs due to the market transaction method and reduced value to services (Walker and Tizard, 2018). Market theory does not always work in the public sector, where markets are often non-competitive, due to a lack of diverse suppliers (Girth et al., 2012). This can result in a failure to deliver efficiency gains (O'Flynn, 2007). Hansen & Lindholst (2016) concluded that the problems with marketization caused some to introduce collaboration alongside competition, for example in the contracting process, so that regulation could function around shared values.

Finance reform after 2010: towards new income streams

The marketization of the supply of services continued to be accelerated by local government to the extent that it was estimated in 2014-15 there was £65 billion spent on contracts as compared with £30 billion in 2011-12 (LGA, 2013). The public sector purchased more than it spent directly on its own services (NAO, 2016b). While the marketization of supply is an established long-term trend, a more recent change has been the pressure on local government to look to the market to secure its income.

After the international financial crash in 2008, local government in England was targeted as an area for reductions in public expenditure. Two key trends emerged in relation to local government finance; reductions in central grants to local areas and an emphasis on incentives for generating revenue (Glover, 2017). The UK Coalition Government of 2010-2015 introduced grant cuts to the Department of Communities and Local Government's (DCLG) local government budget of 27% over a four-year period (Lowndes and Pratchett, 2012). The Auditor General has confirmed a 56% reduction in local government funding between 2010 and 2019 (Watkins, 2019). The reduction was not applied equally with studies such as Innes and Tetlow (2015) showing that the most deprived areas faced the largest cuts (Glover, 2017).

Over the same period, central government implemented a 'self-financing' model (DCLG, 2016). The Local Government Finance Act (2012) allowed councils to keep up to 50% of their local business rate collection, with the intention to expand this. The Localism Act (2011) gave powers to local authorities to act as a commercial enterprise and to establish Local Authority Trading Companies (LATCs) which could generate revenue via investments as diverse as letting agencies, transport, and facilities management (Sandford, 2016). This was in a national context of rising social inequalities with increased demand for local public services (HoC, Committee of Public Accounts, 2016).

The NAO found that between 2010 and 2018, local government investment in the acquisition of land and buildings increased four times to over £3.5 billion (Watkins, 2019). Examples taken from the cities used in our research included Portsmouth City Council purchasing £110 million of commercial property that achieved a 5% return (Nicholl, 2018), and Southampton City Council purchasing over £20 million of property to generate income (Business South, 2006). It was reported in 2018, that local authority investment accounted for nearly 70% of all commercial purchase of shopping centres in England (Aime, 2018). If councils purchased such property in their own area, not only would this give rental income, but also increase their access to local business rate income. This investment strategy was assisted by low interest rates after the financial crisis of 2008.

The recent financial changes represent an expansion of the marketization model of government. While the supply of local public services continues to be contracted out, in this recent manifestation of policy, local government are looking to the market to generate income that can replace lost grant and taxation income.

To understand these changes and their impact, our research undertook a longitudinal study of quantitative data to compare local changes in the period 2014-2017.

Methodology

Case based methods provide a nuanced understanding of how the social world is constructed when compared to aggregate statistical models that search for the 'typical case' and the extent to which it represents all cases (Castellani, Barbrook-Johnson, & Schimpf, 2019). In case-based methods: cases are defined as: 'a complex combination of properties, a specific whole that should not be lost or obscured in the course of the analysis – this is a holistic perspective' (Berg-Schlosser, et al, 2009: 6). This allows for a closer scrutiny of similarity and difference than is usually possible with statistical methods. As Gerrits & Verweij (2016: 8) comment, 'there is a need for methods that retain the complex details of particular cases and that compare those cases in a systematic and transparent manner'.

By tradition, case-based approaches have started with an interest in a single case and built comparisons from this by using small purposive sampling, akin to qualitative methods, rather than trying to infer aggregate findings (Gerring, 2017: 28). Nevertheless, Elman, Gerring, & Mahoney, (2016: 375) have argued the importance of including a 'quantitative template', with the potential for numerical and larger case based studies.

The case-based methods used in this research use quantitative measurements to make mathematical comparisons, but with a small sample. The advantage is a precise understanding of how cases are both similar and different that is linked to empirical quantitative evidence (Haynes, 2017). Such methods allow for configurations of causal complexity to be discovered and analysed, for example, where there are different variable patterns that lead to the same outcome for a group of cases (Ragin, 1987; Byrne, 2005; Byrne and Callaghan, 2013).

This paper uses a mixed methods case-based approach. It combines aspects of two case-based mathematical methods, Hierarchical Cluster Analysis (HCA) (Everitt et al., 2011) and the case configurational approach of Qualitative Comparative Analysis (QCA) (Ragin, 1987, 2006, 2014). It combines these two methods while also using a design that considers longitudinal changes in local governments, to compare their dynamic similarities and differences. Miller (2018) has documented the limitations of using cluster analysis or QCA separately because of their different strengths and weaknesses. He has argued for mixed case-based methods to better understand complex differences. Haynes (2017) has developed a combined case method called *Dynamic Pattern Synthesis* (DPS). It provides added value to other case-based methods because of its ability to synthesise whether any case-based patterns discovered remain over time. The cluster analysis stage in DPS allows for full consideration of the impact of scale variables on case similarities, before variable scores are simplified to 'above' and 'below' threshold categorical scores in the configurational stage.

Charles Ragin (2014: xiv), one the world's leading authorities on case-based methods has argued for such creativity: 'the discussion of combined strategies provides a basis for outlining a more synthetic approach to comparative research'. DPS is an example of such a synthesis.

Hierarchical Cluster Analysis

Hierarchical Cluster Analysis (HCA) is the comparison of small samples of cases using algorithms that measure the levels of similarity and difference, and it forms clusters of similar cases. HCA places cases in logical groups appropriate to the variable characteristics that they have in common (Haynes, 2014). Agglomeration calculations are used to construct groups and represented by a dendrogram graphic. This shows the hierarchical level at which each case is grouped with others, much like the branches of a tree (Everitt et al., 2011).

A criticism of HCA is that the hierarchical construction of clusters limits the validity of the emerging model, with the possibility that clusters are mathematical artefacts. Dynamic Pattern Synthesis offers a solution to this critique as the combination of HCA with QCA allows for a more robust exploration of how clusters are related to variables.

Qualitative Comparative Analysis

Qualitative Comparative Analysis was developed by Charles Ragin (1987). It challenges many of the assumptions of traditional quantitative research, such as the use of samples to generalise to a population. It selects samples in a purposive way and to build theory that allows a detailed focus on similarities and differences between cases (Ragin, 1987, 2006, 2014).

While cluster analysis forms groupings based on an aggregated scale of similarity, QCA seeks to identify what variable scores are most related to each cluster's uniqueness. The variable patterns causing one cluster to be formed can be different to another cluster. Crisp set QCA (Rihoux and De Meur, 2009) analyses these differences by setting a threshold score (i.e., the median) for each variable, and then assigning an above or below threshold value as a binary score of 0 or 1. Binary scores can be plotted to examine patterns in the cluster groupings produced by the HCA. This promotes an understanding of the characteristics of each cluster. Binary scores are displayed in so called 'truth tables', a presentation that is designed to summarise case and variable configurations and patterns of similarity and different between cases (Berg-Schlosser, et al, 2009). If all cases in a cluster share the same above or below threshold score for a variable, this is referred to as a 'prime implicant'.

Additional qualitative checks can be performed when binary allocations are very close to the threshold point. For example, if - in a cluster of four cases - three have variable scores of 0 and one

has a score of 1, but it is clear that the single score of 1 is very close to the threshold point (for example, a mean average score rather than the median score), then this single observation can be overruled and a decision made that the variable is a prime implicant for the whole group (Haynes, 2017). This principle of qualitative checks of the threshold point was applied to threshold scoring in this research.

Once a truth table has been constructed, Boolean algebra summarises the characteristics of each group (Berg-Schlosser, et al, 2009: Rihoux and Marx, 2013). Table 1 explains the Boolean notation used.

Dynamic Pattern Synthesis

The combination of HCA and QCA with longitudinal data has been labelled as DPS and documented previously (Haynes, 2017). This allows for an analysis of how clusters of similar cases are formed in relation to variable scores, but then repeats the modelling over several time periods to assess the levels of longitudinal stability or instability inherent in the patterns found. The formation of clusters may change at different time points, but the researcher must consider how the cases are navigating the environments in which they operate and how the cases move towards similarity or difference across the years studied, and what variables patterns seem to be causing such movements.

A longitudinal 'truth table' is used to see whether a case threshold score remains consistently above or below threshold at all time points. Truth tables were first developed by mathematicians to explore logical outcomes from a matrix of 'true' and 'false' propositions (Post, 1921; Anellis, 2012). Since the late 1980s, social scientists have developed versions of truth tables to explore configurations of social, political and economic conditions in relation to an outcome variable (Ragin, 1987) The basic adaption of truth tables used in DPS to represent each single year, uses the cluster membership from the HCA as the outcome variable and then looks at the configuration of variable conditions that contribute to the coherence of each cluster. The DPS longitudinal truth table changes the matrix to examine variable patterns across all the years and can include a different outcome variable of interest (substituting for the focus on cluster membership). The key benefit of truth tables as an 'analytical device' is that they: 'display the data in a matrix of logically possible configurations of causal conditions' (Ragin, 2014, xxi).

In combination, the stages of DPS allow for a step by step longitudinal analysis that models similarity and differences over time with the ability to fine tune the understanding of variable influences on the trajectory of each case.

Method

In England, there are 353 local councils (LGIU, 2017b), of which there are 55 unitary authorities (UA).

Unitary authorities are one form of local government that is applied to many provincial cities where local services are managed and organised by one tier of local democratic government. In should be noted that some other areas of England do not have this simple structure and instead have a 'two tier' system: for example, perhaps including a large county government that covers some overarching services (like children's services) and a smaller borough system of government that deals with a portfolio of more localised services (like waste collection).

As the service provision is the same across unitary authorities, they represent a good sub sample basis to investigate longitudinal clustering and patterns of similarity. All local authorities are required to report on financial and performance outputs by the DCLG and so secondary data exists for comparison purposes.

Purposive sample

This research has been limited to a sub sample of 10 unitary authorities. A purposive sample was selected for the research project with Brighton and Hove chosen as the initial single UA. The research team was based in this city and seeking to understand changes from the context of this single case study. To enhance this study, a Chartered Institute of Public Finance and Accountancy (CIPFA) 'nearest neighbour' assessment (CIPFA, 2017) was carried out so that a further 9 unitary authorities could be added to construct a meaningful comparative sample. The nearest neighbour model selects a list of authorities that closely match the characteristics of the first UA (Brighton and Hove). One of the areas selected was Swindon, but this did not publish data for every variable being used in this study, so they were removed from the study and the 11th nearest neighbour, York, was selected instead. All the selected local government areas were urban areas in England, and each had a university presence as part of its socio-economic mix.

Indicators used

As the research is based on secondary datasets, there are no additional ethical considerations as no personal data is used. All data is published publicly and is granted permission for reuse under the terms of the Open Government License UK (The National Archives, 2017).

Some new composite variables have been created for this study. Following the requirement for all local authorities to publish details of each transaction with a third-party supplier that exceeds £500

(GDS, 2010), from January 2011, each local authority published this data monthly online. To investigate levels of third party, spend across UAs, our research project aggregated this monthly data and analysed it for each year of the study (2014-15, 2015-16 and 2016-17). The other variable scores were taken from public information produced by NOMIS (National Online Manpower Information System) (https://www.nomisweb.co.uk/), the Local Government Association (LGA) and DCLG. The variables used cover a mix of spending levels, contextual social issues, complaints and the local economic situation. The aim of the variable choices (table 1) is to give a broad coverage of the current financial and social circumstances that local government are experiencing.

Nine out of the 13 variables are ratio based and have been chosen to ensure that the analysis focuses on UAs in relation to their population size. The inclusion of some non-ratio variables allows for consideration of scale in addition to proportionality. Table 1 lists the variables used in the three-year study. The table shows the source of the data, the rationale for its inclusion and its short name for use in Boolean notation.

Table 1 Variables used in longitudinal analysis

Variable	Data Source	Measure	Rationale for inclusion	Boolean notation CAPS = ABOVE THRESHOLD lower case = below threshold
Third party spend	UA Website (UAW) and Analysis from Researcher (AFR)	Total Value (£)	Contracted spend is a key variable of interest in this study and the comparison of this data across authorities is unique to this research	THIRD third
No. of Creditors	UAW and AFR	Total Value	The number of suppliers a UA uses to provide services. This provides information on the diversity of suppliers used in each UA	CR cr
Total Capital Spend	DCLG	Total Value (£)	Measure of how UA uses capital to develop its fixed assets, or to stimulate economic activity in the event of revenue reductions	CAP cap
Third party spend per head of population	AFR (spend) and NOMIS (for population)	Ratio Value (£)	Relative level of third party spend, including differences in population size	THIRDH thirdh
Total expenditure including staff	DCLG	Total Value (£)	Measures the absolute value of the expenditure budget of the UA	EXP exp
Total Households accepted as homeless, per 1000 Households	DCLG	Ratio Value	Relative need for homelessness provision (a statutory duty)	HOM hom
Percentage of public sector employees	LGA	Ratio Value (%)	Measures the economic diversity in the UA which may affect tax receipts and spend	PSE pse
Payroll cost as percentage of total expenditure	DCLG	Ratio Value (%)	Measures the UA's relative wage burden	PAY pay
Total expenditure by head of population	DCLG	Ratio Value (£)	Relative level of spend, including differences in population size	EXPH exph
LGO complaints Upheld as % of those received	NOMIS	Ratio Value (%)	Measure of UA performance as perceived by citizens, and how that is measured by the arbiter	COM com
Local employment rate (ages 16-64)	NOMIS	Ratio Value (%)	Measures the relative active workforce in the UA. Indicative of the levels of service each UA may be required to provide	EMP emp
Investment property, as % of Net Revenue Budget	LGA	Ratio Value (%)	Measures the ability of a UA to raise income through their investment property	INV inv
No. of people per Enterprise Unit	NOMIS and DCLG	Ratio Value	Measures the number of people in a UA per business. Lower values represent more businesses in the area which increases BRRS	ENT ent

The HCA was carried out using IBM SPSS v24 and was calculated using Ward's method, where the fusion of clusters in the model is calculated from the Error Sum of Squares (ESS). Z scores have been used to reduce the risk that a greater variance of scores in one variable will influence the cluster formations (Haynes, 2017). After the production of an HCA dendrogram the data was converted to crisp set QCA binary score based on the case variable value being above or below the median score.

Results

2014-15 data analysis

The HCA for 2014-15 data produced the dendrogram illustrated in figure 1. The following clusters are evidenced: cluster 1, Plymouth and Southampton; cluster 2, Portsmouth and York; cluster 3 – Brighton and Hove and Bristol; cluster 4 – Reading, Bournemouth and Southend. Nottingham has been identified as an outlier.

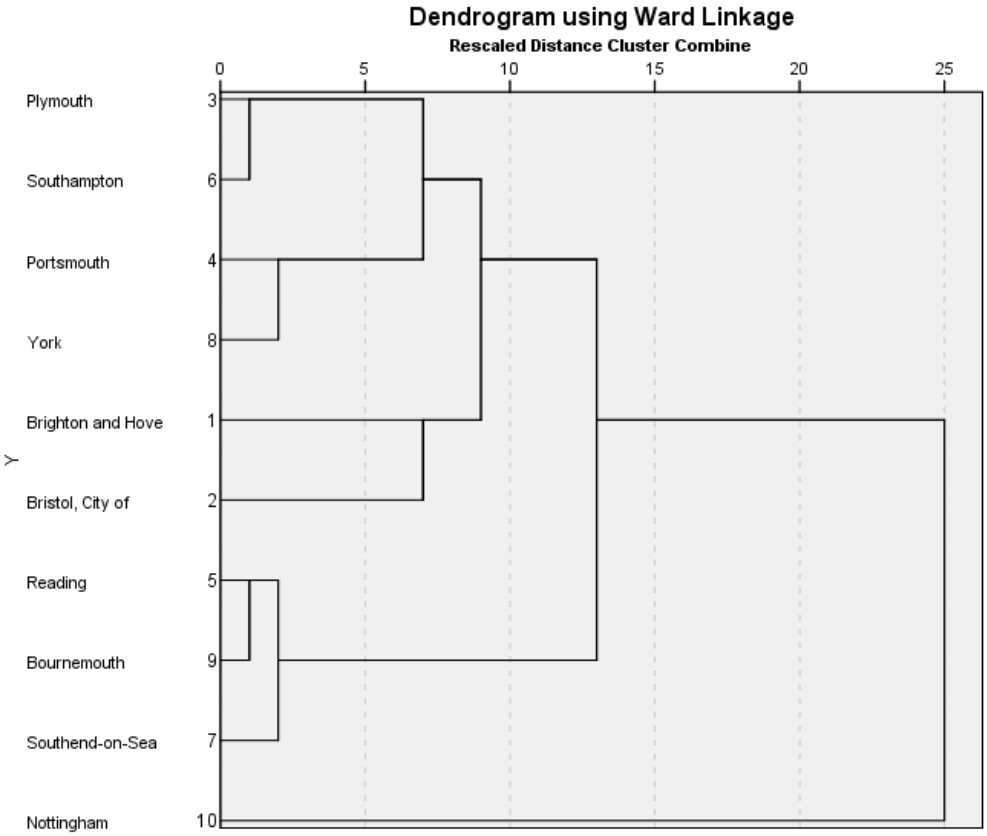

Figure 1 Cluster dendrogram 2014/15

Crisp set QCA is used to validate the cluster and to understand the variable effects on each cluster's formulation. Table 2 shows the resulting truth table based on the cluster outcome. Prime implicants are evident for all clusters. A Boolean simplification of the variable influences on cluster formation is given in the second section of table 2. The variables having most influence overall, with prime implicants influencing each cluster are: the total third party spend, number of creditors and the total spend of the authority.

Table 2. Truth Table with Boolean Simplification 2014/15

UA	Third Party Spend	No of Creditors	Total Capital Spend	Third Party Spend by Head of Population	Total Expenditure Inc Staff	Total Expenditure By head of Population	Total HH accepted as homeless per 1000 HH in pop	Percentage of Public Sector Employees (Average of 4 Q's)	Payroll Cost as Percentage of Total Expenditure	LGO Complaints Upheld as % of Received	Employment Rate (16-64)	Investment Property as % of Net Revenue Budget	Population Per Enterprise Unit	Cluster Membership
Plymouth	**1**	**0**	0	0	**1**	**1**	**1**	**1**	**0**	1	**0**	**1**	**1**	**1**
Southampton	**1**	**0**	1	1	**1**	**1**	**1**	**1**	**0**	0	**0**	**1**	**1**	**1**
Portsmouth	**0**	**0**	**0**	**0**	**0**	1	**0**	**1**	**1**	**1**	0	**0**	1	2
York	**0**	**0**	**0**	**0**	**0**	0	**0**	**1**	**1**	**1**	1	**0**	0	2
Brighton & Hove	**1**	**1**	**1**	**0**	**1**	1	**1**	1	**1**	**1**	**1**	0	**0**	3
Bristol, City of	**1**	**1**	**1**	**0**	**1**	0	**1**	0	**1**	**1**	**1**	1	**0**	3
Reading	**0**	**0**	**0**	1	**0**	**0**	1	0	1	**0**	**1**	**0**	**0**	4
Southend-on-Sea	**0**	**0**	**0**	1	**0**	**0**	0	0	0	**0**	**1**	**0**	**0**	4
Bournemouth	**0**	**0**	**0**	0	**0**	**0**	0	0	0	**0**	**1**	**0**	**0**	4
Nottingham	1	1	1	1	1	1	0	0	0	0	0	1	1	5

Clusters	Boolean Simplification
1 Plymouth, Southampton	THIRD*cr*EXP*EXPH*HOM*PSE* pay *emp*INV*ENT
2 Portsmouth, York	third*cr* cap*thirdh*exp*hom*PSE*PAY*COM*inv
3 Brighton & Hove, Bristol	THIRD*CR*CAP*thirdh*EXP*PAY*COM*EMP*ent
4 Reading, Southend, Bournemouth	third*cr*cap*exp*exph*pse*com*EMP*inv*ent

Table 2 summarises the main characteristics of the clusters. Cluster 1 has higher expenditure patterns, including spend on third party contracts. Activities like households accepted as homeless and public sector employment are also higher. These authorities also have higher income from investment property, but lower business enterprises from which to draw local rates. Cluster 2 share higher working populations in public employment, associated higher payroll costs, and lower expenditure and investment income. Cluster 3 share higher third-party expenditure in total, but this translates to relatively low per household. Total expenditure, public sector pay costs, complaints and local working age employment are all above average. Cluster 4 has predominantly below threshold scores for costs and activities, and are experiencing relatively high proportions of their working age population in employment.

2015-16 data analysis

The data from the next year (2015-16) uses the same equivalent cases and variables. The dendrogram (figure 2) demonstrates that 3 clusters have been formed following the HCA, with one outlier, Nottingham. The list of authorities by cluster is as follows:

Cluster 1 – Southend and Bournemouth; Cluster 2 – Plymouth, York, Portsmouth and Reading Cluster 3 – Bristol, Southampton and Brighton and Hove.

A decision was made to group the UA's in cluster 2 into one cluster, rather than 2 x 2 clusters, as the agglomeration in figure 2 occurs at the same HCA point as the Bristol, Southampton and Brighton cluster (cluster 3).

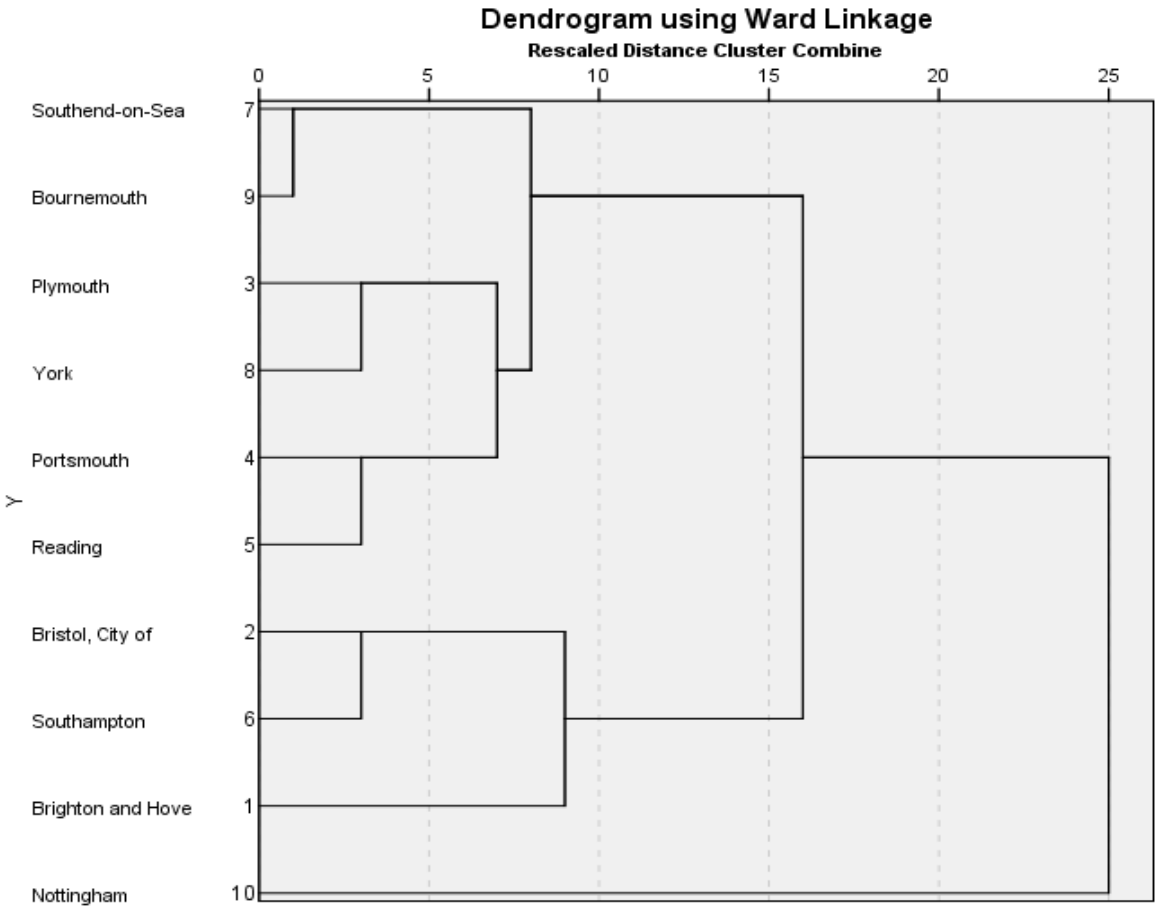

Figure 2 – Cluster dendrogram 2015/16

The results of the truth table after the adjustments have been made are given in Table 3.

Cluster 1 shares 10 prime implicants. This is the continuation of the pairing of Southend and Bournemouth from 2014-15 (previously in cluster 4, table 2). This pair still have a strong tendency to score below threshold in both expenditure and activity variables.

Cluster 2 has two prime implicant variables, although with two pairs (2a and 2b) that share more prime implicants as separate pairs. What unites the four authorities of Plymouth, Portsmouth, York and Reading is high payroll costs as a percentage of their expenditure, in the context of low relative total expenditure compared with the rest of the sample. Overall, they tend towards lower scores for third party financial activity. Portsmouth and York have remained together, as they were in 2014-15

Cluster 3 shares 8 prime implicants. In contrast to the other two clusters it has a tendency towards higher variables scores, across financial and activity indicators, but is lower in third party spend per

head of population. Nottingham, whilst again an outlier, shares prime implicants with 4 variables in cluster 3, evidencing that it shares some common features with these authorities.

Table 3. Truth Table with Boolean Simplification 2015/16

Unitary Authority	Third Party Spend	No of Creditors	Total Capital Spend	Third Party Spend by Head of Population	Total Expenditure Inc Staff	Total Expenditure by Head of Population	Total HH accepted as homeless per 1000 HH in pop	Percentage of Public Sector Employees (Average of 4 Q's)	Payroll Cost as Percentage of Total Expenditure	LGO Complaints Upheld as % of Received	Employment Rate (16-64)	Investment Property as % of Net Revenue Budget	Population Per Enterprise Unit	Cluster Membership
Southend-on-Sea	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	0	1	**0**	0	1
Bournemouth	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	1	0	**0**	1	1
Plymouth	0	0	0	0	**0**	0	1	0	**1**	1	0	1	1	2a
York	0	1	0	0	**0**	0	0	1	**1**	1	1	1	1	2a
Portsmouth	0	0	1	1	**0**	0	0	1	**1**	0	0	1	1	2b
Reading	1	0	0	1	**0**	1	1	0	**1**	0	1	0	0	2b
Bristol, City of	1	**1**	**1**	**0**	**1**	**1**	**1**	**1**	1	1	**1**	1	0	3
Southampton	0	**1**	**1**	**0**	**1**	**1**	**1**	**1**	0	0	**1**	1	1	3
Brighton & Hove	1	**1**	**1**	**0**	**1**	**1**	**1**	**1**	1	1	**1**	0	0	3
Nottingham	1	1	1	1	1	1	0	1	1	0	0	1	1	4

Clusters	Boolean Simplification
1- Southend and Bournemouth	third* cr*cap*thirdh *exp*exph *hom*pse* pay*inv
2- Plymouth, York Portsmouth and Reading	exp*PAY
3. Bristol, Southampton and Brighton & Hove	CR*CAP*thirdh*EXP*EXPH*HOM *PSE* PAY*EMP

2016-17 data analysis

For the final year of the DPS the same variables and cases were tested. The dendrogram in Figure 3 shows how cluster formation has occurred in this year, with clusters being grouped as follows: Cluster 1 – Southend and Bournemouth; Cluster 2 – Plymouth, York and Portsmouth; Cluster 3 – Brighton and Hove and Reading; Cluster 4 – Bristol and Southampton.

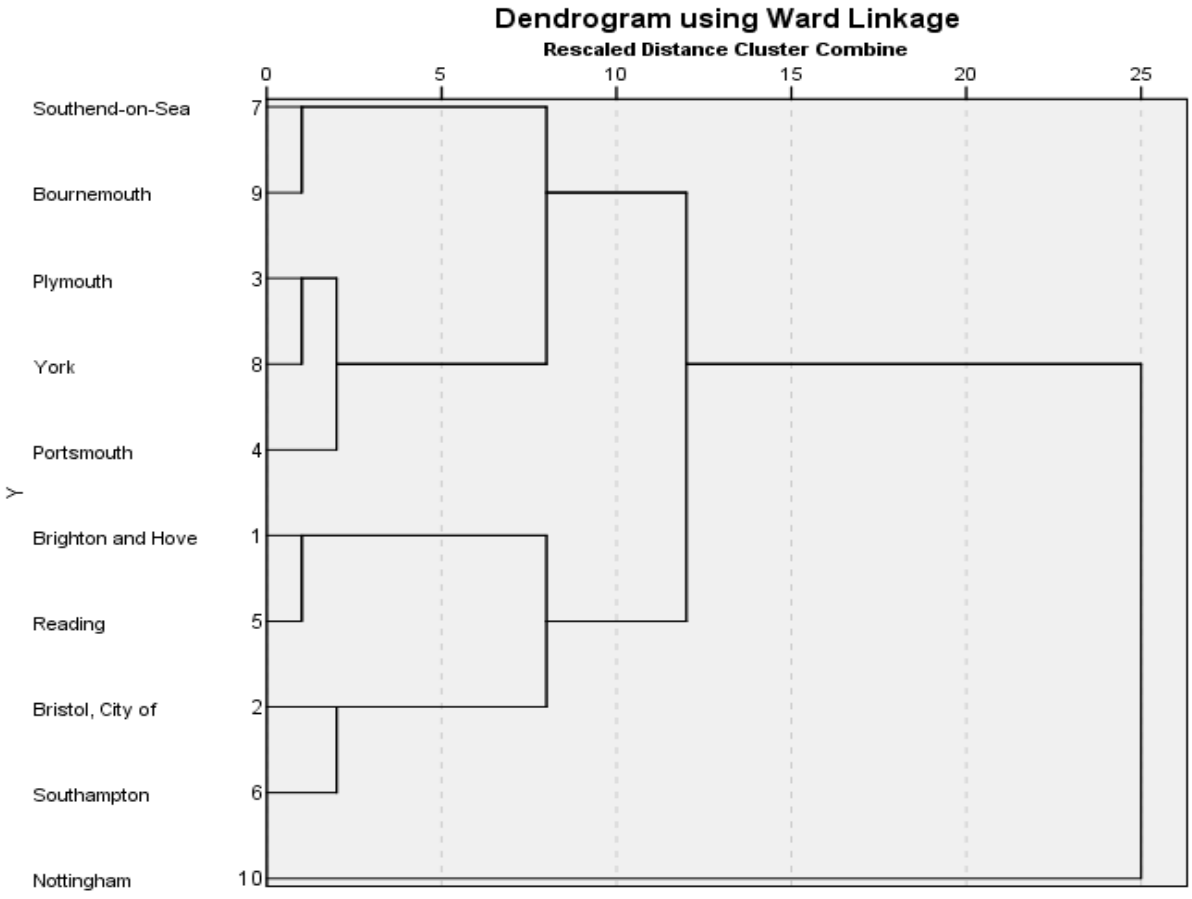

Figure 3 – Cluster dendrogram 2016/17

The results of the truth table after the adjustments have been made are given in table 4, including the resulting Boolean simplification.

Bournemouth and Southend (cluster 1) continue together and table 4 demonstrates that they share 11 prime implicants, strengthening their homogeneity. They remain with a tendency towards below threshold scores, despite being higher for their local employment rates.

Table 4. Truth Table 2016/17

Unitary Authority	Third Party Spend	No of Creditors	Total Capital Spend	Third Party Spend by Head of Population	Total Expenditure Inc Staff	Total Expenditure by Head of Population	Total HH accepted as homeless per 1000 HH in pop	Percentage of Public Sector Employees (Average of 4 Q's)	Payroll Cost as Percentage of Total Expenditure	LGO Complaints Upheld as % of received	Employment Rate (16-64)	Investment Property as % of Net Revenue Budget	Population Per Enterprise Unit	Cluster Membership
Southend-on-Sea	**0**	**0**	**0**	1	**0**	**0**	**0**	**0**	**0**	0	**1**	**0**	**0**	1
Bournemouth	**0**	**0**	**0**	0	**0**	**0**	**0**	**0**	**0**	1	**1**	**0**	**0**	1
Plymouth	0	0	0	0	1	**0**	**0**	**1**	0	**1**	0	**1**	1	2
Portsmouth	1	0	1	1	0	**0**	**0**	**1**	1	**1**	0	**1**	1	2
York	0	1	0	0	0	**0**	**0**	**1**	1	**1**	1	**1**	0	2
Brighton & Hove	**1**	1	1	**1**	1	**1**	**1**	**0**	**1**	0	0	**0**	**0**	3
Reading	**1**	0	0	**1**	0	**1**	**1**	**0**	**1**	0	1	**0**	**0**	3
Bristol, City of	1	1	**1**	**0**	**1**	**1**	**1**	**1**	**0**	1	1	**1**	0	4
Southampton	0	0	**1**	**0**	**1**	**1**	**1**	**1**	**0**	0	0	**1**	1	4
Nottingham	1	1	1	1	1	1	1	0	1	0	0	1	1	5

Clusters	*Boolean Simplification*
1 Southend and Bournemouth	third*cr*cap*exph*hom*pay*EMP*inv*ent
2 Plymouth, York and Portsmouth	exph*hom*PSE*COM*INV
3 Brighton & Hove, and Reading	THIRD*THIRDH*EXPH*HOM*pse*PAY*com*inv*ent
4 Bristol and Southampton	THIRD*thirdh*EXP*EXPH*HOM*PSE*pay*INV

Cluster 2 (Plymouth, Portsmouth, York) share five prime implicants including, lower total expenditure, higher public sector employment, and higher property investment. Portsmouth and York show continuing homogeneity, but Reading (previously similar to them) has moved to join Brighton and Hove (cluster 3). That new pairing (cluster 3) share 8 prime implicants. This includes above threshold scores for total third party spend, and third party spend per household. Total

expenditure per household is higher, as is the number of households accepted as homeless. Property investment and enterprise units are lower.

The last cluster 4, is Bristol and Southampton. This pair remain together, as they were in the previous year, and they share 8 prime implicants. Total expenditure is higher, as is the number of households accepted as homeless, and public sector employees, but the third party spend per household is below threshold. They are higher on total capital spend and property investment.

Nottingham continues as an outlier with a tendency to have higher financial and service activity scores.

Trends and Patterns

Variables

For each variable used in the study, table 5 shows the median sample trend over the three years. There is a decreasing spend by the local authorities. Total spend is falling. Third party spend is falling, as is the ratio of third party spend. As total spend is reducing, there is an increasing number of complaints being upheld, suggesting that citizens continue to expect service delivery from their UA, despite the reductions. Total spend by head of population appears to be relatively stable, as authorities reduce their employees and use capital and investment to raise income.

Capital spend has increased substantially as authorities increase economic activity at a time of decreasing revenue spend. Conversely there is a small fall in property investment income in 2016-17. Median employment rates across the local areas are increasing over the period and the number of enterprise units per person is also increasing, both imply some increased economic opportunities that assist UAs to raise more revenues through business rates, but also through charges such as car parking. In 2016-17, the average value of third party spend declined alongside a fall in total spend. In the same year, this was set against sharp rise in the average total capital spend (increasing in table 5 from £69.7m in 2014-15 to £92.3m in 2016-17). This reflects local government looking to invest in the market place to secure its income (Plender, 2017). For example, the average number of enterprise units increased and was likely to generate both rental income and business rates income.

Table 5. Variable trends, median average sample scores, 2014-2017

Variable Trend Analysis (Based on annual median score)	Third Party Spend (£Mil)	No of Creditors	Total Capital Spend (£Mil)	Third Party Spend By Head (£000)	Total Exp. Inc Staff (£Mil)	Total Exp.,per head of pop. (£000)	Total HHolds accepted as homeless Per 1000 HHolds	% Pub/Sec Employees	Payroll as % of Total Exp.	LGO Complaints upheld (%)	Employment Rate (16-64) (%)	Investment Property as % of Net Rev	No of people per Enterprise Unit
2014/15	274.9	3,662	69.7	1.22	457.1	1.8	1.02	25.4	38.5	10.2	71.9	27	33.35
2015/16	316.5	3,139	75.4	1.27	416.7	1.9	1.14	24.4	37	13.8	74.7	28.1	31.60
2016/17	238.1	2,534	92.3	1.15	407.8	1.8	1.53	23.4	35.5	13.9	75.4	26.1	30.86
Change	↓	↓	↑	↓	↓	**Stable**	↑	↓	↓	↑	↑	↓	↓

Cases

Across the three years of data, stability is found in the cluster pairing of Bournemouth and Southend as they remain in the same cluster in each year. Both scored consistently below threshold on expenditure and investment variables. Nottingham has a consistently high score in spend variables and remains an outlier. Portsmouth and York are also found in the same cluster in each year with Plymouth joining them for 2015-16, 2016-17. Southampton and Bristol have similar characteristics for the second two years of the data. Brighton and Bristol share similarities in 2014-15, 2015-16, but they diverge in 2016-17. Reading changes clusters each year. The explanations for these movements are discussed below.

Patterns

The longitudinal truth table (Haynes, 2017) in table 6 shows where each unitary authority shares the same above or below threshold score on any variable consistently for each of the time points of the study (2014-5, 2015-16, 2016-17). Blank cells indicate a changing and unstable variable threshold score over the period. An additional categorical variable has been added to table 6 that indicates if a UA has consistently had the same political party in overall control for the three years of the study. Only two UAs had minority or changing political administrations, Brighton and Hove, and Portsmouth. The table has been ranked by political control and the third party spend, showing those with above threshold scores for total third party spend at the top.

There are some notable longitudinal patterns evidenced in table 6. The two Conservative UAs are consistently scoring below threshold for total expenditure, and income and investment related variables, also for specific measures like third party spend and number of creditors. The only consistently above threshold score for these two rows of data is the economic context of an above threshold local employment rate in Southend-on-Sea.

The pattern for Labour UAs is less consistent, although it shows some tendency towards above threshold trends in expenditure related variables. Several Labour UAs have consistently higher capital spend over the three years period (Nottingham, Bristol, and Southampton), suggesting that they are trying to find new ways to manage their finances that create revenue income and two of these (Bristol and Southampton) have year on year above threshold levels of households accepted as homeless (showing growing public service needs). Four Labour UAs (Nottingham, Bristol, Southampton and Plymouth) have above threshold scores for property investments.

Behind the average trends in table 5 are case configurational differences in table 6. Local councils like Nottingham, Bristol, and Brighton and Hove are above threshold on both total expenditure, third party spend on the supply side and above threshold on the income side, where the ability to generate income to subsidise the purchase of services shows in higher capital spend. But also, in the case detail, these authorities have differing patterns of income generation with regard to property investments and the number of enterprise units. Some authorities are more focused on local business generation than others, seeing an advantage if local businesses can return both rent and rates income. Other authorities don't perceive realistic large-scale local business growth and have been investing in national property schemes to generate an income, regardless of their actual location. Southampton and Plymouth have above threshold total expenditure, but while not being consistently above threshold for third party spend, they do show above threshold activity on the income generation variables like investment in property and increased number of enterprise units. There is diversity in how local councils adjust to the need for income generation. While the effect of politics on financial decisions is discussed below, other influences are: the local mix of socio-economic challenges like the degree of demand for housing the homeless, and the judgement about realistic possibilities for investing in the local economy. Investments should ideally be low risk and benefit the local population. The City of Portsmouth has faced local debate about whether more investments should be risked in the local economy or allowed to be invested in less risky national schemes that arguably give greater income returns (Callingham, 2018a).

Whilst the historical long-term trend was that local councils were increasingly spending on third party suppliers, our research illustrates the case diversity. To some extent, the profile of third party

spend on the supply side reflects being above or below threshold on total expenditure (table 6 shows six such examples: Nottingham, Bristol and Brighton and Hove on the above threshold supply side and, conversely, York, Southend on Sea and Bournemouth on the below threshold supply side).

The levels of spend are associated with the political control of the UA. Bournemouth and Southend were lower spending authorities (by head of population) that shared membership of a cluster in each year of our study. They remained under the control of a Conservative administration. The larger spending authorities (per head) were influenced by Labour administrations (Nottingham, Southampton -and for 2 of the 3 years –Brighton and Hove). Their above threshold spending looks to be linked to explanations that Labour often represents areas with higher deprivation, so the need to spend is increased (as evidenced by the scores on the ratio of households accepted as homeless, in table 6). Another explanation could be that Labour authorities have sought to hold back from implementing spending cuts for longer than Conservatives, as the areas with highest need face a disproportionate negative impact and that they have been more willing to be creative in their financial approach towards meeting need, including making investments to generate income (Innes and Tetlow, 2015). Our data analysis suggests that these approaches to income generation are variable across Labour administrations, but in general capital expenditure and property investment are more likely to be higher in Labour areas and lower in Conservative ones. Reading is unusual for a Labour council in having below threshold expenditure on the supply side and for financing income. It is below threshold for investment in property and the number of enterprise units.

Although UA spending is decreasing, the need for statutory services is increasing, with the median number of people accepted by local authorities as homeless in this UA sample increasing substantially between 2014 and 2017. In addition, the percentage of complaints being upheld increased (table 5).

A constant outlier throughout the DPS cluster analysis stage was Nottingham City Council with it failing to form a cluster with any of the other authorities during the period studied. It had a consistently much larger score on third party spend than any other authority. The level of its third party spend is significantly higher than that of the nearest authority in each year. These scale scores influenced the cluster analysis stage and are the cause of Nottingham's isolated status in the HCA modelling. Nevertheless, in the QCA modelling, when examining above and below median threshold scores, Nottingham shows similarities to other Labour authorities. Further investigations suggested that Nottingham's increased spend is due to demographic factors, as Nottingham has high levels of poverty and deprivation, ranking 20th of all authorities in the UK (Gardner, 2016). It also has a median age of 30, the lowest of any UA in England, where the national average median age is 39

(LGA, 2017). Another key factor which is likely to contribute to its outlier status, is that in 2012 Nottingham became one of the first 9 cities to negotiate a 'City Deal' (Cabinet Office, 2012) with central government. As a result a major programme of infrastructure renewal was agreed. The large-scale capital investment would explain why Nottingham has such high levels of third party spend. Bristol is also one of the authorities in the first wave of the 'City Deal', but its deal does not include such large infrastructure investment.

Table 6. Longitudinal Truth Table by leading political party

	Lead Political Party	Total Exp.	Third Party Spend	No. of Creditors	Total Capital Spend	Third Party Spend (by Head of Pop.)	Total Expenditure (by Head of Pop.)	HHds Accepted as Homeless, ratio	Per. Public Sector Emp.	Payroll as Per.of Spend	Per. of LGO complaints	Local employment rate	Investment Property, Per. of Net Rev. Budget	Pop/Enterprise Units
Brighton & Hove		Above	Above	Above	Above		Above	Above		Above			Below	Below
Nottingham	Lab	Above	Above	Above	Above	Above	Above				Below	Below	Above	Above
Bristol	Lab	Above	Above	Above	Above	Below		Above			Above	Above	Above	Below
Southampton	Lab	Above					Above	Above		Below	Below		Above	Above
Plymouth	Lab	Above								Below	Above	Below	Above	Above
Reading	Lab	Below						Above	Below	Above	Below		Below	Below
York	Lab	Below	Below		Below	Below	Below	Below	Above	Above	Above	Above		
Portsmouth		Below						Below	Above	Above		Below		Above
Southend on Sea	Con	Below	Below	Below	Below		Below	Below	Below	Below	Below	Above	Below	Below
Bournemouth	Con	Below	Below	Below	Below	Below	Below	Below	Below	Below			Below	

Discussion

The research results show that local government are managing significant reductions in their expenditure. In reaction, they are looking to market investments to maximise their income. The change to business rate retention has coincided with increased capital expenditure and market investment as authorities seek to expand their base for business rate collection. Some councils are also investing in property projects to protect their falling grant and tax income. An additional factor we were unable to model was the spending of reserves and it is clear from other recent research that this is a key component in the current local government financial management (House of Commons, Committee of Public Accounts, 2019).

Local authorities are seeking to invest in their asset base, through capital expenditure, in the hope that this will enable them to have more income to spend on their services (NAO, 2016c). What the

present study is unable to confirm, is whether spend on third parties also follows a trend of decreasing revenue and increasing capital spending. This is because not all UA split their published third party-spend data into revenue and capital, meaning only the total third party spend can be assessed.

Certainly, the marketization of supply has become normalised in public sector delivery. A paradigm shift to the marketization of the supply of public services was longer term and deeply embedded (Hansen & Lindholst, 2016; Pollitt & Bouckaert, 2017). Such trends are evidenced in other countries. For example, one study showed, across several European states, that contracting out of public services had increased over a 30-year period (Alonso, Clifton and Díaz-Fuentes, 2015).

The central government rationale for current changes is to improve incentives to economic growth in each local area, by providing more future autonomy for each authority to set its own business rates and to keep the revenue from the tax that each business pays (Sandford, 2017). The increase in local enterprise units is related to the intention to allow local authorities to retain 100% of their business rate receipts by 2020 (LGIU, 2017c). Some local authorities are looking to capital investments to further secure their income, but the pattern is not uniform, and some areas are following this financial strategy more ardently than others.

The increasing reliance on local business rates does not provide a stable form of income for all local authorities. Businesses may shutdown in some areas due to local economic decline and there is also significant scope for them to appeal BRRS decisions (Smith et al, 2016). This uncertainty is causing anxiety amongst financial officers in local authorities, as a recent survey by the Local Government Information Unit (LGIU), found two thirds of respondents were unsure if BRRS would benefit their authority (Glover, 2017). Local differences in socio-economic context explain some of the configurational differences evidenced in our research when local areas are compared.

Mindful of the requirement to uphold their statutory obligations to provide certain services, some local authorities under the most social pressures are expanding their commercial income capabilities more than others. This represents a 'marketization of income' in addition to the already pervasive marketization of service supply. The Localism Act (2011) allowed for local authorities to trade for a commercial purpose and many have begun this process. This allowed an expansion of income from sales, fees and charges, estimated to be worth £11 billion in 2014/15 (NAO, 2016d). The options open to authorities include providing shared administrative services (Belger, 2018), generating renewable energy supply, or establishing facilities management companies, a trading vehicle, or letting agents,. From the authorities in the present study, Bournemouth established a "Bank of

Bournemouth" in 2014 with an intention to generate returns of up to £24 million, however it ceased trading 18 months after launch as it had failed to lend to enough businesses (Wadey, 2015: Sandford, 2016). This demonstrates that there is also risk to authorities as they become more commercially focused. Another example of the pressure on local councils to generate income to pay for their services, is the large number of local businesses in the UK being sued in the courts by local councils for not paying their business rates (Saker-Clark, 2019). There have also been concerns that local councils are reluctant to agree planning permission for property developers who wish to convert business use to residential properties. This is because of a loss of income, if the land and associated buildings no longer generate local business rate tax.

Local Authorities are diversifying their investments to include commercial and retail property, in the expectation that this will return a future revenue from rents collected. In 2016, this resulted in investment of £1.2 billion in commercial property (Plender, 2017), with, for example, Portsmouth Council investing in shops, warehouses and car show rooms (Callingham, 2018b). This is further evidence of a move towards the 'marketization of income'. Local government is using their commercial knowledge to secure their financial position, as their dependence on central government grants is withdrawn (Hastings, et al, 2015). There are concerns about whether local government has the commercial skills to operate in such a manner (HOC Treasury Committee, 2009). These concerns were summarised by the HoC Committee of Public Accounts (2016: 5) who expressed concern about:

> "the risks to local authority finances, council taxpayers and local service users resulting from local authorities increasingly acting as property developers and commercial landlords with the primary aim of generating income".

As central government grants are withdrawn, some diversity in the policy environment has occurred, offering UAs the opportunity to use different policy instruments to manage their finances (Epp and Baumgartner, 2017). Local government does not have a single type of approach, and hence the differences in the data patterns studied in our research.

The last forty years have seen considerable academic research on the marketization and privatization of public services, including local government (Alford and Flynn, 2012; Girth, et al, 2012; Alonso, et al, 2015; Hansen and Lindholst, 2020). The resulting literatures have focused on the supply side and the impact of government contracts with providers for the delivery of public services. Forms of marketization and privatization of the supply of public services are complex, but research has focused on the supply of services rather than the income that pays for supply. This article argues for a new research endeavour in public finance: the examination of how governments

generate income using market strategies to pay for their services, especially when governments are reluctant to fund via traditional taxation methods. We call this the 'marketization of income'. There is a need for more research into the consequences. For example, will it lead to more financial instability associated with greater levels of debt for local government? And will it lead to more inequity between geographical areas?

This research has focused on local government finance. It can be argued there is also a future link with innovative approaches to macro government finance and income, especially since the global financial crisis of 2008. The relationship between central banks and the state is drawing more academic attention with researchers arguing that credit allocation, including how loans are made to government to assist with its income management, and to avoid cuts in public expenditure, is an important and neglected area of study (Ryan-Collins & van Lerven, 2018).

Conclusion

The DPS method used in this study has demonstrated that in England, changes to local government funding have run concurrently with reduced spending levels, but that as opportunities for future self-funding models emerge, divergence in the strategies of higher spending authorities is evidenced. The research has confirmed that marketization is embedded within the supply of local services, with levels of spending with third parties a key factor for all authorities. This replicates the findings of recent and previous research from Hansen & Lindholst, (2016) and Pollitt and Bouckaert (2017). They have shown the marketisation of supply to have created fragmented and disaggregated outcomes, with the need to evolve elements of collaboration and shared values across organizations to mitigate these problems. The marketisation of income generation looks likely to have similar unpredictable results and without general benefits for all. The diversity in the creativity of income generation amongst Labour authorities can be linked to previous research findings showing Labour run councils are more affected by central government cuts than Conservative led authorities (SPERI, 2014). Local authorities are increasingly looking to new forms of capital expenditure to create revenue and are taking a keener interest in the number of business enterprises situated in their locality. Marketization is already pervasive in the supply of local services, but it looks to become increasingly important in the creation of local government income to promote opportunities to fund the meeting of local need. This represents new evidence of 'hyper marketization' in government.

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