

The Implications of Local Devolution for Efficiency and Effectiveness in Service Delivery

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Introduction

This note has been prepared for the seminar on ‘Local Devolution: the case for change’ organised by the Lyons Inquiry into Local Government Funding. It explores the possible implications of local devolution for the efficiency and effectiveness of local service delivery.

Section one offers a brief analysis of the different dimensions of service efficiency and effectiveness that are likely to be of particular concern to policy makers.

Section two briefly examines definitions of devolution offered by the literature and the range of practical approaches that could be adopted to devolution to the local level in England.

Section three analyses some of the main propositions that arise from the academic literature about the likely impacts of devolution to the local level on the efficiency and effectiveness of service delivery.

Section four presents empirical evidence on the impacts of the current (centralised) approach to the improvement of local public services.

Section five provides an analysis of the relationship between the level of the proportion of funding raised at local level and the performance of local services, based on first hand survey data.

Section six presents overall conclusions and possible implications for future policy.

Definitions of performance

Performance in local public services is a multi-faceted¹. The academic literature makes an important distinction between two main kinds of ‘efficiency’:

- Allocative efficiency – how benefits (and costs) are allocated between agents.
- Technical efficiency (or X-efficiency) – the relationship between costs and benefits (including outputs, outcomes and impacts).

The concern with allocative efficiency is reflected in current policies that seek to promote equity and better access to services for all groups. The Government has, for example, emphasised the need to ensure that minimum standards are achieved in all authorities in order to avoid a so-called a ‘postcode lottery’. Many of its policies have also sought to combat social exclusion by safeguarding the interests of vulnerable communities, groups and individuals.

There has also been a strong emphasis on the importance of ‘technical efficiency’. This was reflected in the Government’s first and second term in attempts to improve the quality and responsiveness of local public services. Ministers believed that public expectations were rising and that many services were not keeping pace. Authorities received real terms increases in funding and were also able to access additional funding streams through a variety of action zones, pilots and pathfinders, initiatives such as LPSAs, which provided ‘pump-priming’ and performance reward grants, and through the assistance from the capacity building programme. In return they were expected to deliver significant improvements in services.

More recently there has also been a concerted attempt to also achieve efficiency savings. In theory councils were required to achieve annual efficiency savings equivalent to 2% per annum under the Best Value regime. However, it was not clear whether, and if so how, this was monitored (at local or national level), and many authorities seemed to pay little attention to the issue. Following the publication of the Gershon review², there has been a much greater focus on achieving ‘cashable savings’. Authorities now have to prepare ‘Annual Efficiency Statements’³ and the CPA methodology from 2005 onwards will include what the Audit Commission describes as ‘a new explicit judgement on value for money as part of annual assessment of how well councils use the resources at their disposal’⁴.

It is therefore important that any assessment of the likely impacts of devolution takes account of a range of different dimensions of performance. At the very least this should include service quality, value-for-money, equity and user satisfaction, and it might conceivably stretch to wider outcomes such 'community well being' and 'quality of life'.

Definitions of and approaches to local devolution

The literature distinguishes between three main forms of decentralisation:

- Deconcentration – the spatial relocation of decision making through the transfer of administrative responsibilities and/or authority to lower levels within central government ministries or agencies;
- Delegation - the transfer of managerial responsibility for specifically defined functions from central to local government;
- Devolution – the transfer of responsibility for governing, understood more broadly - i.e. the creation or strengthening, financially or legally, of sub-national units of governments, whose activities are substantially outside the direct control of central government.

The case for greater local control and the likely implications for service efficiency and effectiveness will depend on which of these forms of decentralisation is considered. For the purposes of this note it is assumed that the debate is concerned with devolution as defined above. However, this can take a number of different forms. The literature differentiates between:

- Financial devolution - the transfer of financial resources in the form of grants and tax-raising powers to sub-national government; and
- Political (or democratic) devolution - where powers and responsibilities are devolved to elected local governments.

And there are a variety of different approaches to both financial and political devolution. In terms of financial devolution:

- Local authorities could be given greater control over how much funding they have;
- Alternatively the total amount of funding available might be fixed by central government but 'ring fencing' might be reduced so that councils have more discretion over how resources are allocated between services;
- Or they might be given greater control over both the total amount of spending funding and how resources are used.

There are also options in terms of how additional funding would be raised:

- Authorities might be given powers to raise additional tax income;
- They might be given powers to raise funding through trading and/or charges;
- They might be given greater flexibility over borrowing (as has happened to some degree following the introduction of the Prudential Scheme);
- Or they might be allowed to do all three.

Similarly, political devolution is likely to encompass consideration of a range of issues including the:

- Legal restrictions on authorities and the statutory duties they have;
- Powers which councils possess;

- Level of central controls and planning requirements; and
- Scale of inspection, audit and other forms of external regulation.

This note considers evidence concerning the possible implications both of greater local control over funding and of devolution in this wider sense.

The potential advantages of local control

In broad terms the literature identifies a number of potential advantages of local control over services:

1. Councils are close to citizens and service users and are therefore best placed to tailor services to local needs and preferences;
2. Devolution to the local level facilitates stakeholder engagement in the design, monitoring and co-production of services. This increases the chances of services being responsive to local needs and pressure from service users, local tax payers and other stakeholders should drive service standards up and costs down. This may offer a more (cost) effective means of regulating service providers than top down performance monitoring, inspection and audit;
3. Local control should also help to render local government more directly and more demonstrably accountable to local people, which is good for local democracy in a wider sense;
4. Finally, if councils are freed from centrally determined targets, funding streams and regulations, they can work more effectively with other local agencies to provide more holistic ('joined up') services which lead to improvements in the overall quality of life.

However, this is only one side of the argument. The literature also suggests a number of rationales for a strong degree of central control over how services are funded and delivered. Again there are four main sets of arguments that deserve a mention:

1. Central government is best placed to ensure equity between local jurisdictions by checking that all councils achieve certain minimum standards in terms of the quality and quantity of service provision;
2. Some services can be delivered more efficiently and effectively at the regional or national level and should therefore be under central control;
3. The existence of externalities to local systems mean that there is a need for central government regulation to safeguard the 'common good';
4. Some local services play a pivotal role in securing important national economic and/or social priorities and central government needs therefore to be able to control their implementation at local level. (An example might be the desire of Conservative governments in the 1980s to control public spending as part of their wider monetary policy, which led them to exert tight control over local authority budgets).

The implication of these two sets of arguments is that the optimum level of local control varies between services, and there is some evidence to support this view in the literature⁵.

There would seem to be a strong case for local control where:

- Needs and/or preferences vary considerably between localities;
- Needs and/or preferences are liable to change rapidly;

- User-participation and other forms of stakeholder engagement add considerable value;
- It is important that services are ‘joined up’ at local level.

‘Street scene’ services probably fulfil the first, third and fourth of these conditions and might therefore be seen as functions which should be under local control. By contrast central control is likely to be advantageous where:

- There are major economies of scale and/or scope associated with large scale production of services;
- There is tried and tested ‘best practice’ in service delivery that works equally well in all localities;
- Service failure results in very serious consequences for users;
- There are major externalities – for example where much the benefits and/or the cost of an activity are felt outside the authority which supplies the service.

Standardised ‘back office’ functions, such as payrolls, fulfil the first two criteria. There are likely to be economies of scale associated with large-scale operations and the same approach is likely to be equally applicable to most authorities. On the face of it they might therefore be best delivered nationally (or regionally) and the case for local control seems to be weak.

In between these two extremes there are many services that fulfil some of the criteria which point to a need for devolution to the local level and some of the criteria that suggest that central control may be beneficial. Services for looked after children for example need to be sensitive to particular local needs and are likely to benefit from user-involvement (which might suggest that they should be under local control). However, the consequences associated with failure can be extremely serious and are likely to have wider implications for society as a whole (which suggests a need for some form of oversight from the centre). This raises the possibility that local services need to be seen as operating on a spectrum ranging from exclusively local control to exclusively central control with most probably occupying an intermediate position and requiring a combination of both local and national controls.

There are however two important caveats.

First, the case for more control to be given to local government depends crucially on its capacity to respond effectively to local needs and preferences. This in turn implies the existence of effective mechanisms to enable engagement by users, local taxpayers and other stakeholders. The literature on public engagement and public choice suggests that in broad terms there are three ways in which local people and other stakeholders can express preferences: choice, exit and voice. There may be some circumstances in which service users and tax payers can exercise choice between providers or decide to stop using services altogether. In practice however the scope for this is limited. Council tax payers can not ‘opt out’ and many local authorities are monopoly suppliers in their areas. The only way in which users can access alternative providers is therefore by moving home. The so-called ‘Tiebout effect’ hypothesises that users may re-locate from areas with poor services and/or high local taxes and move to areas with better services and/or local taxes. However, with the important exception of schooling, there seems little sign that the standards of local services have exerted much influence on location decisions in the UK. In most cases the public therefore influences local government decisions through ‘voice’.

In theory local elections provide one way for them to express views and preferences about services. However, voting is a blunt instrument. At best it offers a chance to express a view once a year. Turnout is often low, and it is usually impossible to express a view on single particular service or issue through the ballot box. If a strong case is to be made for devolving more control over services it is therefore important that councils are able to demonstrate that

they have other mechanisms for engaging with local people. It is clear that the number and range of consultative and deliberative mechanisms (user groups, residents survey, citizens' panels, focus groups and a plethora of other approaches) has increased significantly in recent years⁶. However, there is strong evidence that many local people still regard authorities as remote, out of touch and irrelevant and councils are not the only actors with a claim to be close to citizens. Local government's detractors can therefore argue with some justification that increasing local control need not therefore be synonymous with, or achieved by, giving more powers to councils. It will therefore be necessary to extend and build upon existing approaches so that all stakeholders are able to exert real influence over local services. In particular if non domestic rates were to be returned to local control it would be important for authorities to secure much more effective engagement with the business sector.

Second, the case for strong centralised control as a means of achieving economies of scale is probably not as strong as the literature seems to suggest. In the past there were heated debates about which scale of operations offered optimum technical efficiency in service delivery (see for example the discussions associated with successive waves of local government reorganisation). But the size of individual councils may be far less important now than it was assumed to be in the past. There are at least three reasons for this:

- Authorities are increasingly commissioning rather than delivering services;
- New technology increases the opportunities for new forms of delivery across boundaries and which do not therefore depend for the efficiency on the scale of operations in one locality;
- The increased emphasis on partnership working opens up new possibilities for authorities to work together and/or with other service providers to reap economies of scale.

The structure and size of individual units of local government units may therefore be less important than ensuring that they are appropriate incentives/sanctions for partnership working and measures to build up the local capacity (in terms of skills and technical competence) needed for councils to commission and procure services in ways that offer best value. Nor is it necessary for incentives, sanctions and capacity building efforts to emanate solely from central government. There might be advantages in greater self-regulation from within the local government sector with the IDeA, the LGA and others perhaps playing a greater role in encouraging the adoption of good practice and identifying and dealing with failure.

If this analysis is correct then the key question is whether a top down centrally driven strategy is needed to encourage (or compel) authorities to work in partnership with each other and other providers to achieve economies of scale, or whether individual authorities (and/or networks of authorities) in fact need to be given greater operational freedom to enable them to develop new partnerships and to embrace new forms of commissioning and service delivery. It seems likely that the optimum solution will be a combination of top down incentives (and/or sanctions) and greater operational freedom at local level. But getting the right mix is likely to be tricky and is an issue about which the literature seems to have little to say. However, we do have some empirical evidence on the merits and drawbacks of a top down.

The impacts of the current top down approach

The Office of the Deputy Prime Minister has commissioned a programme of evaluations of the raft of policies which it has launched in an attempt to transform the politics and performance of English local government. There are currently around 20 studies covering key policies such as the introduction of New Council Constitutions and the Ethical Framework (being undertaken by Manchester University), LPSAs and Local Area Agreements (being undertaken by the Office for Public Management), the Single Capital Pot (being undertaken by York Consulting) and Intervention and Recovery Support for poor and weak authorities (being undertaken by Birmingham University)⁷. A 'meta-evaluation' (led by Cardiff University) is designed to draw together the overall findings from these evaluations and has produced a recent report on the overall impacts of current policies on service improvement⁸. This suggests that the current top

down improvement agenda has had significant positive impacts on some key elements of performance, but that it has also undermined attempts to improve some other aspects performance.

Impacts on management structures, processes and strategies

There is strong evidence that current central government policies have encouraged most local authorities to develop the kinds of corporate cultures, systems and processes that ministers believe are necessary to secure efficient and effective services. The Best Value framework and CPAs have both led to significant changes in approaches to performance management, procurement, user engagement and attitudes to partnership working. The CPA has also encouraged a much greater focus on effective leadership at the organisational level and a clearer focus on key (usually national) priorities. It has also clearly focused attention as never before on the worst performing services and the most dysfunctional authorities. But current policies have had much less impact on community leadership and 'joined up' working. And whilst internal organisational cultures, processes and systems have been changed, there is no clear evidence that has led to improvements in the quality of life or levels of well-being in localities.

Impacts on services

There is strong evidence that current policies have helped to lead to improvements in the quality and effectiveness of services, but there has been much less impact on efficiency, access to services and public satisfaction. The ODPM's preferred measures of 'cost effectiveness' suggest that overall there was a 10% improvement in the quality of local government services between 2000/01 and 2003/04. But it seems that much of this improvement is due to additional funding rather than more efficient service delivery. In the case of public satisfaction current policies may even have had a detrimental effect because of the way in which they have raised public expectations whilst highlighting poor performance⁹. There is also evidence to suggest that council tax increases have dented public satisfaction with local government¹⁰.

The rate of improvement has varied between services. Centrally determined targets, PIs and funding appear to have had the greatest impact in services such as waste management, benefits and revenues and housing management¹¹. This seems to be because business processes in these services are fairly uniform and can be relatively easily re-engineered by deploying new technologies. By contrast far less improvement is evident in services like education, social services and planning, where there is probably less scope for simple technological fixes.

Our report also highlights a number of dysfunctions associated with the top down approach, which may be seen as arguments in favour of greater local devolution.

There is some evidence that the current approach stifles innovation. Authorities complain that there are few incentives for them to experiment with new approaches. The system appears to them to be weighted towards 'playing it safe' (i.e. doing the things that they know that inspectors are looking for). As a result the current approach has had the greatest impact on the worst performers. There has been much less impact, it is argued, on the best authorities. It has 'raised the floor', but had far less impact on the 'height of the ceiling'.

There are widespread and well documented concerns about the cost effectiveness of the current level of external audit and inspection.

The top down nature of the current inspection regimes, which mirrors their separate reporting lines to different Whitehall departments (DoH, DfES, Home Office, DWP, ODPM etc.), makes 'joined up' working at local level (such as agreeing shared objectives and pooling budgets) very difficult¹².

Smaller authorities report difficulties coping with the volume of new central government driven policies. They believe that 'initiative overload' distracts them from the task of service delivery¹³.

Many authorities report that current policies increase their accountability to central government but have reduced their accountability to local people and other local stakeholders¹⁴.

There is strong evidence that tight central control over spending makes it more difficult for authorities to address local priorities and may also be holding back improvement in some services. In particular some councils argue that some of the resources they have to allocate to education would be better used to improve under performing social services.

Impacts of the balance of funding on performance

In addition to devolution in the broad sense, there might be a more narrowly focused case for greater local control specifically over local government finance. As noted above, the literature highlights two main issues:

- How much funding can be raised locally (the balance of funding); and
- How much in total authorities have at their disposal.

The impact of the balance of funding

An analysis undertaken for the Balance of Funding Review by the ODPM found that highly geared authorities (i.e. those that were more dependent on central government grant) were less efficient than those that raised a relatively large proportion of their funding locally¹⁵. The report noted however that the influence was small (it accounted for just 2% of variations in performance) and the analysis had not controlled for the effects of deprivation on performance.

We have therefore undertaken our own analysis of the impact of the balance of funding in which we have controlled for the impact of deprivation. We used data on perceptions of performance drawn from a comprehensive survey of chief executives and corporate policy officers from in 314 English authorities in 2001. The analysis suggests that there was a positive association between low gearing and relatively high performance in terms of perceived service quality, effectiveness, equity, user satisfaction and staff satisfaction. The only dimensions with which it was not positively associated were the perceived value for money and efficiency of services. Overall, the balance of funding had a greater positive impact on the perceived effectiveness than partnership working and externalising services, but was less important than effective leadership, performance management and user focus. However, it was also the most important determinant of perceived equity (Annex 1).

The impact of the amount of funding

It might also be argued that some forms of decentralisation would allow councils to raise additional funding which could in turn facilitate service improvement. There is some support in the literature for the proposition that additional resources lead to service improvement. A review of a wide range of quantitative, empirical analyses of the determinants of public service performance (in the US and UK) concluded that increases in spending combined with effective management were the two key influences on service outcomes¹⁶. Studies of the impact of increased resources in Texas school districts also suggest that increases in resources lead to significant improvements in service standards¹⁷. New resources here have been used to reduce class sizes and increase teachers' salaries and both are positively correlated with increases in student attainment. There is a particularly significant impact on attainment among children from low income families. The research suggested that a \$1000 increase in average teacher salaries produces an increase of 2.12% in average TAAS scores over a five year period and a 3.7% increase in the attainment by children from low income families. A decrease of one student in the average student-teacher ratio in each district resulted in a 1% increase in average TAAS scores and almost 2% increase for students from low income families.

However, there is a counter argument which suggests that allowing greater local control over how much funding is raised might encourage inefficiency. Public choice theory for example suggests that additional resources fail to produce better services and are instead absorbed by inefficient and self-serving bureaucracies¹⁸. The BVPI data provide some support for this view, suggesting that over the last six years there have been significant improvements in service standards but less of an impact on efficiency. However, it should not be assumed that freed from central control, all councils would raise more funding than is currently available to them. As noted above, there is evidence that the level of council tax is an important determinant of public satisfaction with local government, and some authorities argue that their priority would be to reduce, rather than increase budgets, in order to keep local taxes as low as possible, even if they had to cut back on services and/or allow them to deteriorate.

Conclusions and possible implications for policy

Overall the literature and the empirical evidence presented here point to some potentially important conclusions.

1. The literature suggests there are a variety of different approaches to allowing greater local control over services and funding. The likely impacts of greater local control are likely to depend on which form(s) of devolution are considered.
2. The efficiency and effectiveness case for local control depends on local councils' ability to understand and respond to local needs and priorities. This implies the need for effective mechanisms for stakeholder engagement. The case for central control rests in part on the assumption that it is a pre-requisite to achieving economies of scale. However, it may be that networks of authorities and/or national local authority associations could play a key role in ensuring that service design and delivery takes place at the most appropriate scale and it may also be possible to encourage a greater degree of self-regulation by the local government sector as a whole in place of central controls.
3. Central and local control offer different kinds of attractions and involve different types of risk. It seems likely that the optimum mix of central and local control will vary between service areas and according to which aspects of performance are considered to be the most important. There is therefore no simple solution. The right balance may therefore need to be determined on a case-by-case basis¹⁹.
4. Recent Government policies have tended to emphasise central control over funding and priorities. Best Value, CPA, IEG statements, LPSAs, the Efficiency Review and the process of annual efficiency statements are all centrally driven and reflect national priorities. This approach has produced significant improvements in some areas of performance but has had little discernable impact on others. It has also proved expensive in terms of regulatory costs and may have contributed to the undermining public confidence in local government.
5. Analyses of the impact of the balance of funding on performance are not conclusive, but they are interesting. The implication of the ODPM's analysis is that there is no reason on efficiency grounds to resist allowing a greater proportion of funding to be raised at local level. Its data suggest that the effect of the balance of funding on service efficiency is at worst neutral. Our analysis confirms this. But it goes further in that it also suggests that raising a greater proportion of funding at local level may well have a beneficial impact on other aspects of performance.
6. Current government policies appear to pulling in different directions. Gershon seems to be predicated on the assumption that Government needs to compel/encourage local authorities to share back office functions in order to reap economies of scale. Meanwhile the Government's Ten Year Strategy for local government emphasises the importance of choice, more personalised services and devolution of control over services to local communities/neighbourhoods, implying that there are advantages to be gained from local

control and smaller scale delivery. These different emphases may however be entirely appropriate.

7. The important thing is to be able to design institutional and funding arrangements that are most likely to facilitate effective partnership working, innovation in service delivery, and the rapid dissemination and adoption of best practice. Gershon may offer the best means of improving efficiency whilst a neighbourhood approach may well offer the best means of improving the quality and responsiveness of services (and perhaps the perceived legitimacy of service providers). In some services we may want the efficiency gains associated with large-scale production of some services and in others what will matter most is the quality gains associated with local control. Similarly, it may be that 'Gershon approach' is more appropriate for routine, support functions with no obvious end user, whilst a 'neighbourhood approach' is more relevant to services that need to be customised to the needs of particular user groups or communities.
8. Finally, it is important to note that the impacts of devolution on service efficiency and effectiveness are not all that matters. Current Government policies seem to be predicated on the assumption that public concerns are focused in particular on the quality and cost of services – ministers have said this fairly explicitly. But there are other important considerations that need to be factored into the discussion of devolution. Even if centrally driven top down initiatives offered the best prospects of improving services, it may be that it has a detrimental impact on other elements of local governance that are too high a price to pay for efficient and effective service delivery. A centralised approach may mean that authorities are less willing to innovate and that the public is unwilling to engage with councils which they see as delivery agents of national government with little room for manoeuvre and therefore unable to make a real difference locally. What is best for service delivery may not therefore be good for stakeholder engagement, electoral turnout or public confidence and trust in local government.

Annex 1: Variations in Local Authority Performance Perceptions

	Quality	VFM	Efficiency	Efficiency	Equity	Consumer Satisfaction	Staff Satisfaction
R2	0.248	0.156	0.154	0.323	0.189	0.143	0.281
F	7.336***	4.106***	4.038***	10.527***	5.178***	3.706***	8.659***
N	233	233	233	232	233	233	233
Leadership	1.279	0.722	1.118	2.257**	2.349**	1.361	3.255***
Clear links between priorities and plans	-0.653	-0.121	-0.050	1.786*	1.842*	0.079	2.365**
Performance Management	1.632	0.637	1.766*	2.928***	1.906*	-0.647	0.390
Externalisation	-0.119	2.346**	1.202	-0.980	-0.766	-0.539	-0.419
Focus on the needs of users	4.329***	3.272***	2.693***	3.660***	1.589	2.669***	2.004**
Partnership working	-1.264	-2.651***	-2.053**	0.399	-0.949	-0.974	-3.860***
Coordination between services	0.899	-0.163	-0.003	-0.755	-0.778	-0.001	1.056
Deprivation	-1.948*	-2.254**	0.170	-0.083	1.223	-1.469	0.971
Ethnic Diversity	-0.213	-0.533	-1.267	0.253	0.908	-1.482	0.606
Balance of Funding	1.922*	0.801	0.921	2.230**	2.420**	2.563**	3.046***

Key: * significant at 10%; ** significant at 5%; *** significant at 1%

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