

# Devolution for local government, individual choice about services and personal responsibility

by

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## **Introduction**

The Labour government elected in 2001 introduced a series of measures to extend individual consumer choice of provider of public services significantly beyond the initiatives of its predecessors.<sup>1</sup> Although the most ambitious programme, only now beginning to have its full effect, was that for patient choice in the NHS, there were also important measures to extend choice of provider in a number of local government services. School choice has been in place for parents in the UK since 1988, but the 2001 government introduced measures to require additional choices to be made available to parents. In social rented housing, choice-based letting schemes of various kinds were encouraged in local authority and registered social landlord stock. Pressure was put upon social services authorities to offer a wider range of choices of provider for those assessed as needing care services; more radically, the government made it mandatory for councils to offer a budget called a Direct Payment to those social care service users able and willing to use one to buy their own care, and in the process to specify for themselves the content of the services they want to buy (cf. 6, 2005).

Secondly, the New Labour government has experimented in several ways with modest relaxations of controls over local government. In the 1997-2001 term, the Beacon Council scheme was introduced, which promised waivers of regulation for the best performing councils and there were hints that eventually even some relaxation of control over local tax rates might be permitted. The 2001 White Paper paved the way for a more extensive programme of “flexibilities” or individually negotiated relaxations or waivers of regulations for councils that showed good service level performance and that offered ambitious targets of their own in their Local Public Service Agreement with central government. Through the instruments of local public service agreements, flexibilities and performance assessment, local authorities have been encouraged to develop their own local programmes of consumer choice of provider.

Thirdly, New Labour has set great store by its commitment to the idea that rights carry responsibilities, which in practice has meant increasing the behavioural obligations of consumers of public services, sometimes in the form of individual conditionalities. Examples of such conditionalities include the duties to accept work, approved training or approved volunteering in the welfare-to-work schemes, the use of home-school contracts, the duties imposed on lone parents accepting help under Healthy Start to present their children for regular primary health care assessments: of course, conditionality upon service users has always played a role in some local government welfare services: for example, the duties of councils to assist households otherwise eligible for housing because of homelessness have since the introduction of the legislation in 1977 been limited to 28 days where the applicants are found intentionally homeless. Secondly, the “responsibility” agenda has involved tougher sanctions for a range of less serious offences now grouped together as “anti-social behaviour”, which also include denial of service, for example, in the extended powers of councils to secure possession against tenants found to have caused nuisance to others.

The Lyons Inquiry into Local Government Funding has been established to consider the case for and possible policy designs for greater fiscal autonomy for local authorities. This requires consideration of the possible impact of both greater devolution to local government of powers to vary the service menu and of greater fiscal autonomy upon the scope for consumer choice of local services. Secondly, consideration needs to be given to the relationship between devolution and the agenda for promoting greater responsibility among citizens generally and among users of public services in particular.

However, the series of policy papers on reform of the tax base for local government and the extent to which greater fiscal autonomy could be allowed to councils, which have led to Sir Michael Lyons review, including the *Balance of Funding* report (ODPM, 2004) and the government’s response to the Select Committee (Deputy Prime Minister and First Secretary of State, 2004), have not discussed the relationship between the devolution, choice and responsibility agendas. Nor indeed is there much empirical research that examines the relationship between them. The present paper, therefore, is constrained to approach the question of how they might be related indirectly. Some conceptual and theoretical analysis is provided, supported by reviews of relevant findings in bodies of research. Questions

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<sup>1</sup> This paper is concerned exclusively with individual consumer choice, and not with collective voice in the ways that it is sometimes construed as collective choice (e.g., neighbourhood ballots among local authority tenants about management arrangements): collective voice is considered only insofar as devolution is justified on the basis of giving greater power to voters at local authority level.

and speculative hypotheses are identified, the assessment of which must be left for future empirical research.

### ***Scope for expanding choice in local authority services***

Local authorities differ, fairly obviously, in their ability to offer choice by their administrative type. County councils can offer choice in education and social services while district councils can extend choice in social rented housing.

Some local authority services offer limited scope for individual choice. These include

- land use planning;
- regulatory functions such as development control, environmental health inspection, licensing for certain business activities such as street markets; and
- correctional activities conducted through the various partnerships with law enforcement agencies.

Other services are essentially provided to collectivities, however defined. These include street lighting, street cleaning, park maintenance, and highway maintenance. These are less susceptible to individual consumer choice, because the additional costs would be prohibitively high of identifying which part of the service could be attributed to which consumers, and some of the allocations of costs to people would be arbitrary.

In other areas, choice already exists for people to use other services. For example, local authority advice services generally compete with other advice services funded by the same local authorities such as law centres and citizens advice bureaux and independent neighbourhood advice agencies, as well as with commercial solicitors. Equally, additional choice of collective transport exists in many cities where several bus companies compete with each other for passengers, although now in rather few cities do multiple companies work the same routes. Most councils allow extensive choice of facility for those eligible to use their leisure services.

The main fields in which service choice is being offered at present are the following six:

1. primary and secondary school choice;
2. choice of domiciliary care provider;
3. choice of residential care provider and location, possibly in another jurisdiction;
4. choice to substitute preferred care services for others (using Direct Payments);
5. choice of social rented accommodation and location, typically within a single jurisdiction but not necessarily so where the choice programme also includes registered social landlords offering properties from other jurisdictions; and
6. choice of secondary health care provider (and temporary location during in-patient stay).

It is quite possible that councils could offer additional choice for some of their services. For example, choice could be introduced, at least in principle, of provider of household waste collection or recycling (if it is thought that there is enough scope for competition on such aspects as punctuality, flexibility about special collections etc), and that greater choice could be offered of pre-school facilities (SureStart programmes, nurseries, kindergartens and the like), as indeed was briefly the case under the Nursery Vouchers scheme run from 1996 to 1997 but terminated by the incoming Labour government on the grounds that it was misdesigned.

Extending choice therefore can take the form of *widening* or *deepening*. Widening would involve the extension of choice of provider and perhaps also of service contents to services where it is not presently provided. Deepening would consist in adding additional providers to the menu from which people might choose in those services where choice is already available. Radical deepening would involve full voucherisation, allowing greater private sector competition, and even permitting “topping up” from consumers own resources (Daniels and Trebilcock, 2005) or else extending charging to services currently free at the point of use. If the proposals of the Prime Minister’s Strategy Unit (2005) were to be implemented, for a full individualised budget for people with disabilities, then this would presumably amount to a voucher that would cover a wider range of local authority services than the areas of personal social services covered by Direct Payments now. However, this paper has been written on the assumption that no further deepening of choice affecting local government is planned.

## **Potential impacts of greater devolution on the choice agenda**

In thinking about the impact that greater devolution might have upon choice, and about the converse relationship, it is important to distinguish a number of distinct elements that might make up devolution. In broad terms, devolution might encompass granting new powers to local authorities to vary the present schemes in respect of receiving or paying for services; there is an area of overlap in possible powers between receiving and paying where powers might be granted to vary the targeting of services which is often done by using tools that affect how they are paid for, or where new organisational vehicles are created to hold the financial responsibility. The third column of Table 1 sets out some of the most important possibilities that can be discussed here. This is not, of course, exhaustive. Nor are the various powers in that column mutually exclusive. Indeed, powers could be devolved in any combination: one way to measure the radicalism of devolution would be to consider just how many of the categories of powers identified here are granted.

The columns to the right of the table identify some possible impacts upon choice. It is important to note, however, that these impacts might be significantly different if, instead of granting devolved powers to all local authorities, councils were selected for eligibility for powers on the basis of certain conditionalities upon councils as organisations. These might include offering the powers only to those who had achieved (a) performance targets or (b) targets for choice within existing services or (c) that undertook to extend choice. Secondly, it is important to take into account that Table 1 presents, with a very few exceptions, only some possible *static* effects. In later sections, some *dynamic* effects of devolution upon choice are considered: these work mainly through their effects on the incentives that people face to move house to another jurisdiction offering a package of services and taxes that they might prefer.

It is difficult to assign probabilities to each of the possible outcomes or risks identified in Table 1, partly because the probabilities will vary greatly depending on the precise details of the overall policy, and partly because local authorities' uses of these powers will vary greatly and because their starting points vary so greatly in service quality and in their socio-demographic bases.

However, it is probably fair to suggest that, irrespective of probability, the scale of these effects is, for the most part, not likely to be very great. None need be regarded as a "showstopper", that would render the combination of choice and devolution absolutely unacceptable, were the effect to transpire. For the most part, these possible effects call for safeguards and care in policy design, and perhaps at most for a clear recognition on the part of central government of the nature of certain trade-offs that may be involved both in choice and in devolution and in the combination of the two.

If the direct static effects of each of these devolution measures *per se* upon choice are likely to be limited, then much will depend on the particular political preferences of different local authorities about how far and how they would want to make use of devolved powers over the service menu or the revenue vehicles.

**Table 1: Possible impacts of different categories of devolution measure upon key aspects of individual choice of provider and/or content**

Categories		Powers	Possible impacts on scope for choice	Possible impacts on possible consequences of choice e.g., efficiency, quality or equity
Receiving ↑	Services	Power to add responsibility for procurement for some services to the standard offering, possibly in competition with the private sector or in competition with other public authorities Power to cease to procure or provide some services currently in the standard offering	Might add some services over which choice of provider might be exercised; might involve attracting additional providers  Might reduce number of services over which choice of provider might be exercised	Might result in scope for competing up quality  If the services withdrawn are of particular importance to the less well-off, this might have unwelcome consequences for equity. Might allow some greater investment in the services on which the council concentrates
		Additional powers to negotiate agreements to transfer responsibilities for both procurement and provision of some services to other existing bodies or new bodies (e.g., regional or subregional agencies) Power to vary clienteles for existing services e.g., introduce means-testing or other tighter targeting for currently universal services	Might increase the geographical area over which consumers might exercise choice of provider, which require a system of quasi-vouchers redeemable over a wider geographical area  Might reduce numbers of people able to exercise choice with subsidy or without paying (higher) charges	Might allow some capacity to capture economies of scale for those services where those economies are not anyway exhausted at locality level (e.g., transaction costs of administering payment systems to back choice), so improving efficiency Because historically, there has been an elective affinity between being in medium-term receipt of means-tested services and neither being offered nor greatly exercising voice to call for more choice, this might depress choice, at least at the margin Might have the effect of giving some of those now paying fees the confidence to demand more choice or content or provider or higher quality in return for payment
		Fees and charges	Additional powers to vary charges, to introduce charges for services currently free at the point of use, or use different tapers or bases for charging	No direct effect on scope
	Borrowing	Power to take some borrowing off-balance sheet, or off PSBR, or to issue bonds, or create (perhaps with other neighbouring councils) new vehicles	If restricted to large-scale capital projects that are near-natural local monopolies, then limited impact on scope for choice, or might even prevent conversion to more decentralised services that might have left more scope for choice	If providers (schools, care providers, etc) are allowed to use this directly, then it might enhance quality, if the money were well spent
	Taxes	Power to vary tax base, e.g., substitute local sales tax or local income tax or a relocated business tax for the present local property tax  Power to vary tax rates upward without incurring financial penalties so readily as at present, thus raising yields	At the margin, a local business tax in some councils but not others might deter potential private sector service providers from locating in a jurisdiction affected. Might allow some greater investment in services in ways that might be used to enhance choice At the margin, where eligibility for local authority services is means-tested on post-council-tax income, some more consumers might become eligible	No obvious direct impacts on the impact of choice on quality or equity of services  Might have the effect that those paying higher taxes who do not relocate to other lower tax rate jurisdictions (see below) would exercise voice to demand more choice as the <i>quid pro quo</i> for higher tax rates
↓ Paying				

It would be quite possible to devolve powers of the first two categories without increasing individual consumer choice. Indeed, if the principal or exclusive rationale for devolving powers to local government were considered to be that of increasing local collective accountability or the weight of local “voice” (in Hirschman’s 1970s sense) in local decision making, then supporting individual consumer choice within the service offering – a mechanism for promoting “exit” – could be regarded as illogical. However, if the rationale for devolution is (for example) to transfer political responsibility (and blame for service failures) from central to local government, then the same considerations need not apply. Moreover, it would be consistent to promote both collective voice and individual exit in local authority services if central government has reasonably good evidence to the effect that a national framework to promote choice provides a form of responsiveness that complements rather than being in tension with one that promotes collective voice, and in particular that

- a. local service users would exercise their collective voice to demand more or better individual choices;
- b. local collective voice can provide invaluable information with which to design or improve the operation of local choice schemes;
- c. choice schemes in local authority services critically depend for their political legitimacy, even if not for their technical efficacy, on greater scope for collective voice.

There is probably limited evidence for (c): after all, choice-based lettings schemes and school choice have both achieved reasonably high levels of public acceptance without any greater devolution to local authorities, and indeed, under the Conservative governments, school choice achieved popularity even though it was presented as an alternative rather than a complement for local collective voice. However, there are at least some theoretical grounds for thinking that (b) might be true. Hirschman (1970) argued that in many fields, voice and exit could helpfully be combined. A case can be made that where some of those with the right to exercise choice are likely, at least in the short term, to make rather inertial choices, and where one cannot be confident that a critical mass of active choosers can be sustained to exercise sufficient discipline on providers through exit alone, then a role for collective voice may be helpful.

The government would, however, face a genuine tension between increasing local collective voice through devolution and increasing exit through service choice if there are areas in which significant proportions of service users have strong political preferences against individual choice schemes, that cannot be shifted by any information that government might offer about their merit. In practice, there seems to be no evidence there are significant areas of the country where significant proportions of parents oppose school choice, or renters oppose choice-based lettings, or people with disabilities oppose Direct Payments on principle. By and large, opposition has concerned the position of those who for one reason or another cannot bear the search costs for information, or cannot bear the costs of longer distance travel to use better services, or who find themselves for various reasons locked in to using services that are performing poorly but which can neither be reformed nor closed with acceptable alternatives put in place. There may be some ways of designing or resourcing choice schemes to mitigate some of these effects.

Promoting choice as a target from the centre might be thought to be in tension with devolving to local authorities greater discretion over how they configure their services. Although this is undeniably true, it is not a decisive consideration. If it is accepted, as most people do accept, that, in a country which is not a federal state and where the constitutional status of local government remains based in statute law and is not entrenched, central government continues to have important and legitimate interests in the quality of local government services, then devolution cannot be absolute. Therefore, there is no reason why in principle central government cannot select which powers to devolve and which service designs – including choice – to require or at least provide councils with clear and positive incentives for.

Therefore, the key question about the relationship between choice and devolution for central government concerns the extent to which it wants to devolve to local authorities, the political discretion to decide how they will design the details of the two policies, or conversely, how far the centre wants to specify centrally the ways in which the two should be related. On the one hand, considerations of territorial equity might call for much the same kinds of choice scheme to be in place in every local authority, if there are to be choice schemes at all. On the other hand, an argument for devolution might allow local authorities to offer different kinds of choice scheme, even if it is made mandatory that all must offer some choice of particular services. Or again, some councils might be selectively offered greater devolution as a reward for achievements in choice. The question of placing conditionalities upon councils

and the earned autonomy programme are at the heart of this issue, and these are discussed in the next section.

### ***Choice and devolution: possible approaches to policy design***

Just as there are alternative policy design approaches for the relationship between fiscal devolution and service menu devolution, so there are alternative ways in which policy makers could design the relationship between the service choice agenda for local authority services and the devolution agenda. There are, first of all, questions to be resolved about the relationship between the different elements of devolution. In particular, would powers to vary the menu of services be granted at the same time as greater powers to control tax rates or the total local tax burden? Or would the *quid pro quo* for fiscal autonomy be even tighter central control over the service menu, or might powers to vary the service offering be made conditional upon performance, and if so, would the conditions also apply to fiscal autonomy?

However, for the present purpose perhaps the most important choice is whether

- a. the prior achievement a certain level of deepening and widening of service choice by a local authority is made the condition, under the earned autonomy principle, for being granted – on a bilateral basis through the Local PSA system – greater powers of fiscal discretion, or whether
- b. service choice and fiscal devolution are pressed simultaneously for all councils or those which meet earned autonomy conditions defined purely by service performance.<sup>1</sup>

In examining whether there might be other tensions between choice and devolution where devolution to local government is understood broadly, a more complicated relationship should also be considered – namely, that between the transaction cost assessment of local service choice in those cases where the consumer travels to the provider (education, rehousing etc) rather than the other way around (waste collection, street lighting etc), the range of services for which local authorities have responsibility, the goals of service choice, and greater local fiscal autonomy. If each local authority offers choice of service provider within the boundaries of its own geographical jurisdiction, then there arises quite quickly the question of whether, and if so, to what extent, service users can choose to use providers based outside that councils' jurisdiction and still require the council to pay for that service. Since the Greenwich judgment, it is not possible for local education authorities to refuse to pass on payments – in effect, quasi-vouchers (any payment mechanism used to back choice can properly be called a quasi-voucher, for the consumer chooses a provider which then redeems a payment from the public authority) – for pupils to schools in neighbouring areas. However, in the rarer cases where someone might want to send their child to a school at a greater distance, the decision might be more finely balanced. The same question arises for choice-based lettings schemes that operate only within a local authority's stock and do not encompass agreements with registered social landlords that provide housing over a wider area. For services where demand might grow for more out-of-jurisdiction choice, there may be a need for schemes and arrangements between local authorities and perhaps at regional level to manage the process, especially for services where different local authorities in the region within which most out-of-locality choice is taking place might set slightly different levels or terms of eligibility for a quasi-voucher. This may have the effect of reducing the extent of local democratic “voice” in services such as education, which would be highly controversial (Daniels and Trebilcock, 2005, 36).

However, a case is sometimes made that allowing a great many local choice schemes represents a transaction costly design, and that shifting the responsibility away from local to regional or central government would be more efficient. For example, there have been proposals made over many years that education could be transferred from local to central government. This, it has been said, would have four advantages. Firstly, it would allow choice of provider to operate across the whole country. Second, it would capture any economies of scale in administering choice and making payments of quasi-vouchers. Thirdly, it would reduce local governments' turnover to the point that much greater fiscal discretion could be allowed without much political risk: variation of tax rates on a much smaller total budget would be more acceptable. Fourth, with education transferred to central government and all catchment area restrictions lifted, then the most important service-based reason for which people move house – namely to get their children into a better school – would be taken away from local government. With education taken out of the local service offering, local government's impact on the incentive to move house would be based much more clearly on taxes than at present, which – it is argued by some – would be more efficient.

The argument for transferring education to central government, then, rests critically on a trade-off between either transaction cost efficiency or allocative efficiency in house moves and either the geographical scope of choice or else the political scope for local voice. If those arguments were valid and sufficient, then choice would become an argument for centralisation of the financial and administrative arrangements behind choice, and so for taking responsibilities away from local government. We know rather little about the differences in transaction costs of running choice choices between local, regional and central government. There are also rather few local government services for which people are prepared to travel great distances. On balance, therefore, the thesis that choice might be a force for centralisation should probably be regarded as unproven.

## ***Impacts of choice and devolution on service competition, quality and equity***

In this section, consideration is given to some of the dynamic effects of combining devolution and choice; this section examines the dynamic effects upon household relocation from impacts on service-quality aspects of each council's offering; two possible scenarios are distinguished and considered. The next section examines dynamic effects and equity, and the following one examines the dynamic effects of tax-related features of a council's total offer as they affect incentives upon households to relocate.

Part of the case for choice is that allowing providers to compete for consumers will result, where providers are subject to price regulation through being paid set rates by fiscal authorities, in their competing on quality, and – given the price ceiling – also in their improving their efficiency.

The case for fiscal devolution is complex. In part, it is purely political and democratic, being grounded in the idea of local political accountability for the tax and service package. In part, however, it does rely on the idea that when councils have greater discretion, differences in the quality of their services and in the relationship between their resources and their service performance will become much clearer to their residents, because the masking effect of equalisation and subsidy will have been reduced. The result will be, it is hoped, “league table competition”, in which the discipline of the collective voice of voters able to compare the performance of councils on a more transparent, valid and reliable basis will also service to compete quality. In addition, the possibility of exit – the Tiebout (1956) effect of people moving to areas with better performing councils under conditions of greater devolution – will also, it is hoped, at least at the margin, have a reinforcing disciplinary effect.

In its original form, the Tiebout hypothesis states that, at least in certain idealised conditions (costless mobility, full knowledge of councils' charges and services, a sufficient choice of jurisdictions, no external economies or diseconomies of scale, councils setting services to respond to the preferences of current inhabitants, etc) citizen-voters will relocate to areas offering packages of services and taxes that most nearly meet their preferences, and the resulting competition between jurisdictions for citizens will produce an efficient outcome. If people do move for these reasons, they might move between council areas, or within the jurisdiction of the same council, for example, to be near a better school or to a property carrying a lower rate of council tax. A variety of models using less restrictive assumptions has been developed, and a body of empirical studies has been conducted using various methodologies and assumptions in various countries to estimate the size of the Tiebout effect – this is, the proportion of relocations both between and within jurisdictions that could be said to be influenced to some degree by the desire to find a mix of services and taxes that better suits the preferences of the household (for a review, see Dowding *et al*, 1994).

Tiebout effects, if they occur and even if they can be shown to be efficient in economic theory, do not necessarily produce particularly fair outcomes, if by fairness, one means that the outcomes benefit the less well off. For if it is the case that less well off households tend to move to councils with more generous service expenditure and therefore higher taxes, while better off ones tend, especially under fiscal devolution, to move to lower taxing areas with either services more concentrated to their benefit or simply less generous services, then the financial responsibility for ensuring that the overall outcome does not redound to the disadvantage of the less well off falls upon central government grant aid and the equalisation system. To the extent that devolution involves a relaxation of equalisation, this might make central grant aid less able to perform this task. Service choice may be slightly more redistributive, depending on how it is designed and whether it successfully results in the competing-up of service quality in areas inhabited by less well off households, perhaps as a result of a “critical mass” of quality-sensitive choosers being available and active in each area.

The most optimistic scenario is one in which the agendas of choice and devolution both work to compete up the quality of services consistently with sustaining both competitive and administrative pressures to keep costs and therefore local taxes down. The less optimistic scenarios are ones in which the main concerns will be matters of equity rather than allocative and productive efficiency, and these considerations may arise in relation to choice and to devolution largely irrespective of the particular interactions that might emerge between the two agendas.

What can be said about the relative likelihood of each of these scenarios? The optimistic scenario might transpire if

- there is a critical mass of individuals who are prepared to choose as active consumers, and to make their choices on the basis of outcome-related factors,
- the incentives built into the quasi-vouchers that back the choice schemes are adequate and their gradient with respect to the different costs that different consumers present to providers is appropriately tapered (6, 2003); and
- incentives built into contracts between providers and individual consumers exercising choice and with the local authorities handling the payments are designed to emphasise the trade-off between competing on price and competing on quality that is implied by the overall policy mix.

Much of the debate both about the service choice and the fiscal devolution agendas has been about how far each risks unfairness. In the case of the service choice agenda, the unfairness issue is one as between differently advantaged and disadvantaged consumers (individuals or households), while in the fiscal devolution debate, the issue has been about territorial equity between the populations of people either using services or paying taxes or both in different local authority jurisdictions.

In theory, inequity might arise from service choice by two routes

- a. Some people may not be very active choosers, and will simply choose the option that is easiest to find, or they may choose on the basis of aspects of the services provided by rival suppliers that are not directly outcome related, while others will be very active choosers willing to bear the costs of searching for and assessing information and actively monitoring service quality and prepared to use exit or at least voice when disappointed; those who are less active or who choose on non-outcome related aspects may find that they make worse choices but have limited means for becoming aware of the fact. It is possible that if some devolution measures were accompanied (perhaps by way of conditionalities upon councils) by duties to provide much greater information and public education, then they could be used as levers by which to try to stimulate more active choosing among key target groups, although the success of such programmes would need careful evaluation.
- b. Where supply is limited (e.g., because entry is costly or administratively restricted, as in the case of schools in the maintained sector), and when some consumers are either more attractive to providers than others and those providers can manipulate which consumers they will serve or else less active consumers are not willing or able to find and choose the best providers (by outcomes achieved), then those consumers who are less attractive to providers (costly to serve, difficult clients, less promising for achieving target outcomes, less profitable, etc) or who do not choose them will only be able to choose the less efficient or effective providers, and may even be “locked in” to using very badly failing providers who do not exit the market (e.g., because administrative or regulatory measures keep them operating, e.g., because their closure would be politically risky or because it is difficult to secure new entrants or expand the capacity of better providers). If service devolution measures, for example, to allow authorities to delegate procurement roles to bodies with larger geographical areas than a single jurisdiction, in those services this could be done allowing economies of scale to be captured in payment administration but not on the provision side to the point of narrow oligopoly or in ways that managed the exit of the inefficient more quickly and cheaply, then it might be possible to use devolution to increase the number of effectively competing providers. However, it is difficult to see ways in which devolution measures alone would impact measurably in the short term on the relative attractiveness to providers of those consumers who are more costly to serve.

In the devolution agenda, the territorial inequity risk is also twofold. First, if better off areas, where demand for local authority services is typically lower but where capacity to pay taxes is higher, are allowed fiscal discretion, and the system of equalisation is relaxed, then less well-off areas, with greater need and less fiscal capacity, will experience a loss of subsidy. Secondly, where people can, the better off will move

to areas with lower tax rates, if the quality and quantity of the services about which they care are held constant (and as consumers they use fewer local public services than less well off people), while the worse off will move to areas that offer higher levels of service (see the discussion below on the interaction between choice and devolution and the Tiebout hypothesis), this reinforcing the polarisation in fiscal capacity to the disadvantage of the worse off areas.

The research on school choice is still ambivalent about how far these two central conditions have been achieved. Because there have been improvements in schools in any case, probably as much the result of administrative and regulatory measures as due to competition effects, perhaps the limitations of the competition mechanism may not be so important. Nevertheless, the school choice experience continues to show high levels of differential capitalisation of Tiebout effects through markedly higher prices around oversubscribed schools (Leech and Campos, 2003; Barrow, 2002). Greater fiscal devolution, if it results in a wider distribution of tax rates and of service quality, is likely only to amplify the phenomenon. There are differing views too about the extent to which the present quasi-voucher system of public procurement of residential and domiciliary care is producing improvements in efficiency consistently with raising quality of care, or whether it is simply controlling costs within the rationing system. There is limited evidence so far that choice-based lettings schemes have much independent impact on efficiency, although some schemes are being designed in tandem with other administrative measures intended to reduce vacancy periods. If greater service devolution granted wider powers to authorities to introduce different kinds of choice-based lettings, this might result in more demand for Tiebout-induced movement within the social rented sector through regional and national transfer schemes: however, here, supply is closely rationed. There may be more reasons for optimism about the interaction of the patient choice and Payment by Results programmes, although if the impact of greater efficiency were to allow some units within hospitals to close where they do not attract enough patients, this might cause political problems that a government with a small majority might want to mitigate; in any case, the spin-off effect on local government would be more likely to be political than related to council tax and local government services.

Although the worst aspects of polarisation and severe inequity suggested by the pessimistic scenarios may be avoided, it seems likely, however, that there will be some equity issues arising from choice and quasi-vouchers. Therefore, the key question for policy makers is whether the other gains expected from the introduction of these policies may be sufficiently great to justify any equity problems. This is in essence the same judgment that is being made in the context of the devolution agenda. For a relaxation of the equalisation formula represents an acceptance of greater inequity in financial inputs in order to secure other gains, whether in efficiency, quality, or even – if other policy measures can be designed and introduced that would break the proportional link between input and outcome levels – in equity in outcomes. If devolution is to be introduced at the same time as greater consumer choice in local government and other public services, it makes sense to assess the two policies together.

### ***Service choice and jurisdiction choice: possible effects on household decisions to move house***

Devolution to local authorities of fiscal responsibility and of powers to specify the services they offer would allow greater diversity in the packages of tax rates and service offerings that councils in different parts of the country presented to their residents and those who might want to reside in their jurisdictions. There would presumably be important some competitive pressures – some of which are discussed below – that might limit the extent of the diversity. Nevertheless, even a modest increase in diversity between what councils offer and charge should also increase the incentives for people who are motivated either by services or by tax rates to relocate to areas that offer them a mix that they prefer. This directs us look further at the studies done on the Tiebout hypothesis (1956).

From the point of view of the household as consumer of services and payer of local taxes, therefore, at the centre of the question about the relationship between the two agendas is the issue of how far service choice is a complement, a substitute or irrelevant to choice of jurisdiction.

For example, it might be the case that greater choice over services within a single jurisdiction might be a partial substitute for choice of location. For if they no longer need to move house in order to access services that would otherwise only be available if they lived elsewhere, then, assuming that the rate of tax payable on the initial location remains acceptable and affordable, the household might be less inclined to relocate. Therefore, simultaneously increasing service choice and the fiscal and service autonomy of

councils might produce effects on relocation that might partially offset each other. It is hard to say, in advance of knowing the precise details of the two schemes and a good deal more about household preferences than we presently know, which effect would dominate.

On the other hand, it might be the case that the very process of devolution would increase the diversity between councils in service choice, if the extent of service choice was precisely one of things that was permitted to vary between authorities. In that case, service choice would simply enter into the Tiebout calculations of households considering whether and where to move, about the overall package of services and taxes that they most prefer. In this sense, the two agendas are complementary, and the effects should complement each other. One would expect that, all other things being equal (such as the distribution of available jobs between council areas and other reasons for moving, the distribution of incomes between households, the distribution of household sizes), service choice and devolution together would produce a once-for-all increase in the rate of Tiebout-motivated relocations.

Thirdly, it is also possible that the two agendas have nothing much to do with each other. For example, if service choice has no net effect whatsoever on the decision to stay or to move, then there need be no particular interaction.

The problem is that we have very little information on the size of the effect of service choice of various types on households decisions on whether and where to move. Some tendencies can be inferred from what we do know about different programmes of service choice, but it is more difficult to say anything about the size of the effects, or the net effect taking account of the interaction between them.

Two of the six service fields identified above have seen recently introduced or recently extended programmes involve making a choice of location in any case. Of the others, some are known to have a greater effect than others upon decisions to move house. Of these, the most important is school choice. It is well documented that good schools have a very significant effect in raising house prices in their vicinity, even where they use selection criteria that do not involve a catchment area rule. Research on reasons for relocation has consistently found that desire to live nearer schools into which parents want to secure their children's admission is important for many households (for a review of recent research on residential mobility, see e.g., Dieleman, 2001).

This suggests that a programme that increases service choice in the field of primary and secondary education might well stimulate some additional moves, both within and between council areas, in order to take advantage of aspects of the service offering.

The relationship between school choice and devolution could be changed if at the same time as devolving greater power to councils to offer more or less school choice within their areas, schools in the state sector were prohibited entirely from using geographical catchment area rules as selection and admission criteria, or any rule that is deemed tantamount to one. The effect on house prices in the vicinity of the best schools – in effect, the additional capitalisation of the cost to a household of exercising its choice (Caplan, 2001) – would probably be modest because those seeking admission for their children on the basis of other rules would still have reasons to want to live near those schools. But at the margin, extending choice by removing all vestiges of catchment area admission rules might have the effect of allowing people to live further from those schools while still being able to secure their children's admission there; it might also make it more difficult for a few more people to send their children to the local school whose applications would have rested principally on their falling within the geographical catchment area.<sup>2</sup> Some empirical evidence suggests that schools are more important as a pull factor to move to particular areas than a push factor to move in the first place (Dowding and John, 1996, 394ff)

The research conducted on the main original claim in the Tiebout hypothesis, that competition between jurisdictions would lead to significant household relocation, has focused on the question of whether more local authorities with smaller jurisdictions would lead to greater efficiency (at least some threshold level for economies of scale) – allocatively, because more councils free to offer different service and tax packages would give each household a greater probability of finding one that was a reasonably near match to their preferences, and productively, because the greater numbers of councils competing for residents might have greater disciplinary effect. To date, the evidence for the efficiency of local authority fragmentation remains very mixed. Dowding's and Meroupis' (2003) analysis of 1997 survey data on residential mobility in three English metropolitan areas suggested little evidence for it, and the authors speculate that voice may be having a disciplinary effect on efficiency, substituting for exit behaviour, although the low levels of political participation in English local government might lead one to query this interpretation.

However, the present paper is concerned more with the size of the Tiebout moving effect than with its efficiency. If jurisdictions are consolidated, then choices about whether and where to move are more likely to focus on intra-jurisdiction than upon inter-jurisdiction relocation options. If, assuming that household income remains constant before and after a possible move, the differences in the tax/service package between the present house and another house in the same authority area are as great as the differences between the present house and one in another authority area that is equally preferable in all other respects, then the household should be indifferent between the two moves.

With local government partly financed by a property tax and large jurisdictions, in practice, a household may be slightly more likely to choose the intra-jurisdiction move if this would, for example, enable them to reach a better school or, if they have no school-age children and are trading down, to pay a lower rate of property tax, simply because the larger jurisdiction effect will reduce the number of possible inter-jurisdictional moves. If adding greater in-jurisdiction service choice is added to the mix, it is possible that this effect of larger jurisdictions might be reinforced, unless differences in the tax/service packages were significantly larger and the costs of discovering their magnitude quite low to most households. With large differential tax rates and service quality differences, multiple jurisdictions in the same metropolitan area and modest transaction costs of moving, then, as Tiebout predicted, households are more willing to move (John *et al*, 1995). The question is whether, in areas such as London of which this is true in the UK, the effect of increasing choice of (for example) schools within jurisdictions would be sufficient, measurably to reduce the number of inter- and raise the number of intra-jurisdiction moves. Assuming that London continues to be an area in which a higher proportion of parents fail to get a child into their first choice school (Flatley *et al*, 2001), and where there is a wider distribution of schools by performance than in much of the rest of the country, where new schools are being entered into the quasi-market and schools in special measures are closing, but where it is proving difficult for education authorities to meet the targets for providing additional numbers of school options to many parents, then it is possible that at least in the short run, the effect of such modest deepening of choice on decisions to move may be fairly limited, although future analysis of the data may find it to be statistically significant.

Choice-based lettings, at least where combined with continued strict eligibility criteria reflecting the need to ration a limited stock, may be expected to have a greater effect on the geographical distribution of moves than on the total rate of moves.

Suppose now that one of things allowed to vary under greater local devolution was the extent of service choice offered by councils. Would greater service choice any of these areas in and of itself, and independently of the quality of the particular local services available, be a reason for people to want to move to a locality that offered greater choice? Again, this should probably be expected to differ by service area. The evidence of the greater satisfaction reported by Direct Payment budget holders than comparably disabled people receiving conventional services suggests that, at least at the margin, some people might take the availability and generosity of Direct Payments in different jurisdictions into account in making decisions about moving home between councils' areas; but these are likely to be modest numbers. On the other hand, one would expect that the fact of choice would add little to considerations of the quality of the particular local services in the case of school, hospital and domiciliary care services. In areas of housing shortage, where social rented housing has to be rationed and where eligibility criteria must be met before one can be entered for choice-based lettings schemes, those criteria often require a connection with the council's area. This limits the ability of households to move to an area for its social housing in any case; in areas of social housing surplus, the issue hardly arises; therefore, we should expect choice-based lettings to affect the rate of intra- rather than of inter-jurisdictional moves.

Service choice by itself is likely to play a part, then, in influencing incentives for people to move house between jurisdictions, mainly through

- its static impact on perceived service quality – some people might regard having more choice for some services as itself an improvement in quality
- its dynamic impact on quality, but only where the effect is to stimulate competition for consumers rather than consumers competing for congested better services;
- its possible negative impact, if and where choice is extended only with the raising of fees and charges for services or else the raising of local tax rates.

In turn, the major determinants of whether any of these conditions are met depend on the specific details of the design of the incentives within the choice schemes introduced and the local fiscal decisions made.

## ***Tax effects and council competition for residents***

The previous section examined only the services related aspects of the relationship between the choice and devolution agendas. It is necessary now to turn to the tax issues.

Local authorities want, among other things, to compete for citizens in ways that will enhance their tax base. They gain little or nothing from people who are on full council tax benefit, although their losses on such people are partly offset by the central government subsidy for council tax benefit; of course, such people will also typically use more services than their council tax benefit subsidy covers. Because of the steep tapers in the council tax benefit system, those who are on less than full council tax benefit represent a greater net loss to local authorities because much less of their net service cost is met by central government council tax subsidy. Because the council tax is a tax on assets rather than on income, councils benefit only indirectly and with a longer time lag by attracting more households with high incomes, than they lose by attracting poor households. They may benefit to the extent that such people either renovate homes in ways that push those homes, after revaluations, into higher council tax bands, or indirectly by the fact that such people attract housebuilders to build more homes which then come into the tax base, or indirectly by the stimulus to local business activity that such better off households' spending causes, which may in turn create more local employment and so reduce demand for some services. (Under a system of national business rates, the direct fiscal benefit of more business activity is limited by the pooling formula.)

Let us assume for a moment that devolution took the modest form of giving councils greater discretion to set rates of council tax without incurring so steeply tapered reductions in central grant as at present or of running risks of being capped. In that case, might greater service choice attract more people who would be a net medium-term fiscal gain or a loss to a council that offered more service choice than its neighbouring authorities, holding constant the quality of the particular services? Again, we have no directly relevant empirical studies to go by. However, perhaps some hypotheses can be offered on the basis of general background information and the arguments of the last few paragraphs.

Suppose, on the other hand, that service quality is not held constant. Suppose instead that greater devolution and greater service choice both have the effect, which government hopes they will, of competing up service quality. In that case, the question of whether the combination of policy agendas will have an effect on relocation decisions in ways that might disadvantage some councils by attracting disproportionately more households who represent a net fiscal loss rather than a net fiscal gain for the duration of their residence in the jurisdiction turns on whether the quality improvement is nationally or regionally even, whether it is greater in areas which can continue (despite the improvements in quality) to offer lower taxes or not, and how efficient differently placed councils can be in limiting the rate of growth of their spending on services as they improve. All other things being equal, greater devolution of tax ratesetting and service specification responsibility to councils ought to provide some incentive for a roughly even improvement in efficiency. But councils' starting positions differ. Those which are more heavily indebted, or which face particular difficulties in recruiting skilled labour to staff services, or which are strongly unionised, may find it more difficult than others to realise efficiency gains in spending when they allow service quality to improve.

Now let us change the model of fiscal devolution, and to hypothesise about what might happen under conditions of greater service choice. Financing local government through a local income tax rather than a property tax has the effect of sharpening the incentive for councils to compete to attract higher income households, because the council can then capture the fiscal gain from those households much more quickly and directly, and because income taxes are relatively more fiscally buoyant than property taxes. Better off households are typically more likely to be interested in school choice than in other areas: because they are more likely to be owner occupiers, choice-based lettings will be of limited interest to them; because they may have more capital than would allow them to be eligible for support with the costs of social care, choice in personal social services may have little to offer them; and even though they may well use the NHS, patient choice is not likely to bring significant incentives for relocation to particular areas, because they will be better able to bear the transaction costs of using distant hospitals. Households with higher incomes can therefore reasonably be expected to look, to the extent that their relocation decisions reflect local authority factors, for councils offering a wider choice of good schools and comparatively lower rates of local income tax. They may also be marginally more interested than other groups in certain other aspects of amenity over which local authorities have some control, including some local environmental features of which they might make more use than other groups. At the margin, then,

a council that recognises its incentive to compete for such households might be willing to concentrate its investment of resources away from social services and social rented housing and toward education and education-related services and amenities that particularly benefit households with children. Presumably, nevertheless, continuing central government regulation would limit the extent to which, even under devolution, councils could disinvest in other services. Equally, the legal prohibition on running deficit budgets effectively prevents councils, even if they believe that under a local income tax system they could benefit from such a “Laffer curve”, from cutting tax rates below the expected first year yield sufficient (together with central grant) to cover their expenditure, in the expectation that they would attract enough wealthier residents and stimulate enough economic activity in future years to offset the short term losses. If this prohibition remained in place under the devolution scheme, this would act as a further constraint upon councils’ ability to compete too ruthlessly for residents with higher incomes.

One way in which central government could reinforce a complementary relationship between service choice and devolution might be to offer devolved powers and discretion over tax rates and service offerings only to those councils that had already, under pre-devolution powers and duties, successfully introduced certain levels of service choice. This would give all councils an incentive to increase the extent of their service choice offer. In the period in which only a minority of councils had achieved sufficiently high levels of service choice and were able to make use of the fiscal devolution, however, we might consider whether there might be significant permanent effects. If the beneficiary councils were able to offer packages that were more attractive to better off residents, perhaps because their services were of higher than average quality anyway, the question arises, whether there would be a significant Tiebout effect in which those councils would attract better off residents from elsewhere. Clearly, short run local factors could offset any such effect in any case. In part, moreover, whether there would be such an effect might depend on whether those better off households that might be motivated by the tax and service package offered by the first group of councils granted devolved powers believed that other councils would quickly follow them and acquire the devolved powers. If they expected other councils to follow the leaders quite quickly, then it seems unlikely that the size of any Tiebout effect would be very great.

### ***Homogeneity effects***

Would the combination of greater fiscal and service devolution greater individual consumer choice about services result in greater social homogenisation of neighbourhoods, as a result of Tiebout effects? Since we expect the size of the Tiebout effects to be relatively modest and to show up in the medium rather than the short term, given the greater importance of factors to do with jobs and house sale transaction costs and desire to live near relatives as push factors in residential location decisions, the main concern would be about areas that already show tendencies to social homogenisation in any case. We know from Wilson’s (1996) study and from others’ work that social homogenisation has the effect of reducing the rate at which less well-off people form social ties to better off people, and of reducing the peer example effect of co-residence alongside the more ambitious. This in turn has the effect of reducing the rate of upward social mobility from the lower income deciles into upper deciles, especially when compounded by other problems that might flow from poorly designed uncompensated choice schemes such as being locked into poorly performing schools that cannot attract good pupils or teachers but which are not performing so badly as to attract special measures. Where social homogenisation also runs along ethnic or religious lines, it can create other problems of social cohesion and tension. Choice based lettings, as well as school choice with its middle-class sensitivity to peer effects, might be socially homogenising. Residential homogenisation by class and religion was observed to be increased in Glasgow in the 1980s within the council housing sector as a result of the extent of choice of lettings available prior to the introduction of need-based points schemes and fewer offers (Clapham and Kintrea, 1986): one possibility for the medium term effect of the replacement of pure point schemes and limited offer allocations by choice-based lettings is that in some areas, such effects may be observed once again.

It might be argued that other benefits from service choice and devolution would outweigh these risks, but they ought to be considered in the overall evaluation.

### ***Personal “responsibility”***

Most of the work done on citizens’ responsibilities – understood here to mean objective accountability of citizens expressed in performance of obligations rather than any subjective sense of responsibility or solidarity – is either normative or else consists in empirical studies on the effects of particular policies of

greater individual conditionality such as those in the various welfare-to-work schemes. There have been no empirical studies on the relationship between conditionality, service choice and fiscal devolution.

If local authorities had greater devolved powers to vary the behavioural conditionalities placed upon applicants for their services, then there are reasons to believe that this would have an effect, at least within London and some other parts of the country, on levels of applications. For example, when in the 1980s, some Conservative authorities adopted very tough interpretations of the “intentionally homeless” rule in making determinations on applications, there was generally agreed to be an observable displacement effect, with reduced applications to those authorities and more applications to less restrictive (typically then Labour controlled) authorities. This does suggest that there would be a Tiebout effect, although it is hard to measure just how great it would be in response to any particular local change in conditionality. I do not know whether there have been displacement effects observed in residential location decisions between councils or police areas arising from local variations in the numbers of reported crimes or complaints made or sanctions administered per 1000 male population under 25 (for example), but if there are such effects, that would be another example.

Suppose – it is a gloomy but plausible thought – that it is the case that conditionalities in services are more likely to be imposed on people who are disproportionately more likely to be net recipients rather than net contributors to public services. If the better off know this and if they recognise an incentive for themselves in using voice to secure greater behavioural conditionality locally in order to trigger a Tiebout displacement effect, then there is the possibility of a “beggar my neighbour” competition between councils with larger proportions of better-off residents and neighbouring authorities with larger proportions of worse-off residents by ratcheting up conditionalities. The question is whether that would be expected to continue indefinitely or whether there is likely to be a high equilibrium level of behavioural conditionality to which councils might converge and then conditionality levels might remain stable, even in the absence of regulation. I do not know whether this has been researched empirically. If it has, then one would expect to look first for evidence in the inter-state comparative studies on welfare-to-work schemes in the US after the 1996 reforms: in writing this paper, I have not been able to examine that literature. However, before one could draw inferences from that body of evidence, one would want to control for a number of contextual differences between the US and the UK in public attitudes to public services recipients, and for contextual differences between welfare-to-work schemes and other kinds of public services in which local authorities in the UK have a greater role.

There may therefore be both reasons of equity between individuals as well as reasons of equity between local authorities for wanting to put a floor beneath the extent of local variation in conditionalities that might be locally imposed.

## **Conclusion**

If the argument presented here is roughly right, then there is no reason why the choice and devolution agendas should necessarily and generally come into major tension or that they may not be mutually supportive agendas.

Although we lack empirical evidence about the likely nature of the interaction between the choice and devolution agendas, it seems sensible to approach the question by focusing in the first instance on Tiebout effects of incentives to relocate, because devolution creates greater variety in the service and tax offer, while choice affects the service offer. Secondly, the relationship between efficiency and equity is a key dimension for assessment. Other dimensions of interaction could of course be examined. For example, if the chosen form of devolution involves discretion over the rate at which a local income tax is levied, and if greater school choice is expected to increase still further the capitalisation of the value of the best schools, then it may be important to examine medium-term effects on local differences in investment in new housing and in renovation between and within local authority areas. Again, Gorard’s and Fitz’s (1998) “starting gun” hypothesis, that over time, under choice programmes, people become more willing to bear the costs of search and active choosing albeit that middle class and better educated people’s preferences about choosing adapt first, suggests another dimension of Tiebout-related assessment. If the same effect were to transpire under devolution for choice of local authority area in which to live, then it would be important to examine the combined effect of greater service choice and greater variation in rates of local taxation upon the emergence of a critical mass of consumerist consumer-voters. Those who argue for policy changes principally in terms of their hoped-for effects upon shaping citizen behaviour would be especially interested in this dimension.

For the present, all that can be said with confidence about the interaction of choice and devolution is that we know something about where to look for the effects, about what kinds of assessment need to be done, and what sorts of considerations should be taken into account, and that indeed, the kinds of information that policy makers might ideally want probably could not be available in advance. Policy makers must make their decisions in the short run on the basis of trade-offs based on limited information, which is hardly a novel situation.

## Notes

<sup>1</sup> To the extent that the first option requires primary legislation that would take time to be passed and then implemented by local authorities and their relative performance measured and compared, this would involve a significant delay in introducing fiscal devolution. If the overriding political imperative is to introduce some form of fiscal devolution prior to the date on which the English revaluation would fall due, then this option becomes much less attractive, whatever merits it might have from the point of view of the earned autonomy agenda.

Promoting both agendas simultaneously might be less consistent with the earned autonomy principle, because it would involve a greater degree of trust by the centre in the service capabilities and in the fiscal responsibility of local authorities than central government has shown in recent years. However, if on the one hand central government feels it politically imperative to trust local authorities more on fiscal matters but also wishes to prescribe that they offer greater service choice, while accepting that there will unavoidably be variations in how those choices are offered, what choices can feasibly and practicably be made available in different parts of the country, and in how local authorities choose to weight choice programmes between services according to their own (perhaps locally consulted upon) priorities, then this may be an unavoidable consequence of following the two policy imperatives simultaneously.

<sup>2</sup> Catchment area rules have been in decline in any case for some years. The 1989 Greenwich judgment prevented schools from defining catchment areas to coincide with local authority jurisdictions where people regularly expect to be able to send their children to school across council boundaries: schools and academies must consider applications from households living in other local education authorities. The 1997 Rotherham judgment ruled that catchment area rules are lawful, but the other legal duties (including the Greenwich judgment) effectively prohibit schools from guaranteeing places to all children within the catchment area. Today, rather few oversubscribed schools now have admission criteria in which a catchment area rule is the most important element (these will presumably mainly be permitted continuations of pre-1997/8 arrangements which have not yet been the subject of a successful parental objection) (DfES, 2003).

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