Institute for Fiscal Studies

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Preface

The analysis underlying this report was carried out by researchers at the Institute for Fiscal Studies (IFS), in collaboration with staff of the Local Government Information Unit (LGiU) and PwC. The report makes use of published financial, socio-economic and political data on councils and the areas they cover (and analysis of these data by IFS researchers), as well as responses to surveys of key council decision-makers by the LGiU and PwC. Further information on these surveys can be found in the report.

The report was funded by IFS's Local Government Finance and Devolution consortium. The main consortium supporters are:

- the Economic and Social Research Council (ESRC);
- PwC;
- Capita;
- the Chartered Institute of Public Finance and Accountancy (CIPFA).

Additional consortium supporters include:

- the Municipal Journal;
- the Society of County Treasurers;
- a range of councils from across England.

The authors would like to thank members of the consortium group and Paul Johnson for providing helpful comments on earlier drafts of this work. Any errors and all views expressed are those of the authors alone.

Contents

Executive summary

Local government finance in England in the 2010s can be characterised by two major trends: large (albeit varying) cuts to council budgets; and a shift from centralised redistribution of funding towards a greater emphasis on fiscal incentives for revenue growth, most notably via the introduction and potential extension of the business rates retention scheme (BRRS).

It is in this context that this report, jointly written by researchers at the Institute for Fiscal Studies (IFS), the Local Government Information Unit (LGiU) and PwC, looks at how the views of councils' decision-makers relate to the characteristics of the councils they represent or work for. In particular, we focus on views in two key areas: the quality of service provision; and the impact and design of the BRRS. Such an analysis allows us to examine whether perceptions of two key issues differ systematically between areas with different financial, political and socio-economic characteristics.

Key findings

Almost nine-in-ten respondents say that service quality was maintained or improved in 2016–17, despite cuts.

They are less optimistic looking ahead though. Just one-in-three are confident that cuts can be made without significant impacts on service quality or outcomes out to 2019–20, and one-in-six confident out to 2021–22.

Views on likely changes in service quality in 2016–17 and 2017–18 are unrelated to either a council's level of revenues per capita or the scale of recent cuts to its revenues per capita.

But there is a link between the type of council a respondent comes from and their views on service quality. In particular, concerns are significantly higher among respondents from councils with responsibility for adult social care than in shire district councils.

Larger falls in revenues are associated with less confidence about likely service quality in the medium term (2019–20).

Both councils that experienced bigger falls in revenues between 2009–10 and 2016–17 and those with bigger (forecast) falls in revenues between 2016–17 and 2019–20 are more worried about future service quality than other councils. This may mean that while they have been able to mitigate pressures in recent years, by improving efficiency or dipping into reserves, they feel those options are no longer available.

Two-thirds of survey respondents say that it is impossible to work out whether their council has gained financially from the current BRRS.	This may be because they are unsure what the funding system would otherwise have looked like. But given that better information may facilitate the desired incentive and accountability effects of the BRRS, publication of comparative data on councils' performance under the BRRS could be worthwhile.
Respondents from councils that we estimate have relatively gained from the existing BRRS are more optimistic about the local impact of a 100% BRRS.	Those from areas where recent economic growth is higher are also more optimistic. This is perhaps unsurprising, but this optimism may be misplaced: other research suggests there is in fact little relationship between economic growth and business rates revenue growth, at least during the period between 2010 and 2015.
Those expecting to gain from a 100% BRRS are also more likely to say that such a scheme would provide an incentive to councils more generally to promote economic growth.	This could reflect differences in the general degree of optimism about the future among respondents. On the other hand, respondents could be conflating (local) financial impacts with the more general incentive effects: incentives to grow business rates revenues can still operate at the margin, even if overall a council is losing from the scheme.
Conservative-run councils and those with lower levels of spending need are more likely to favour prioritising financial incentives over redistribution in the design of the 100% scheme, than Labour-run councils and those with higher levels of spending need.	This pattern is unsurprising and would seem to reflect the self-interest of councils in different circumstances. However, what matters for financial incentives is retention of future growth in revenues, not the existing stock of revenues. A greater focus on incentives – for example, by allowing areas to retain 100% of the growth for longer – would benefit high-revenues/low-needs areas over low-revenues/high-needs areas if there is further divergence in revenues and needs around the country. If instead there is *convergence*, needier areas may in fact benefit more from a system that prioritises financial incentives.

Taken together, the findings demonstrate and reflect some of the key challenges facing local and national government: substantial budget cuts, combined with rising demands for key services; and difficulties in developing a funding regime that can command widespread support across councils, when there are systematic differences in preferences over issues such as the appropriate roles of redistribution and financial incentives.

1. Introduction

Local government in England is in the midst of two major changes that will fundamentally affect the way it is financed. First are substantial reductions in the overall levels of funding available to councils: non-education revenues fell by 26%, on average, between 2009–10 and 2016–17, with the biggest falls in generally poorer, more urban areas that were most dependent on grant funding (which has fallen most).[1] At the same time, the composition and allocation of funding have changed, with a shift from equalising grants to greater reliance on local tax revenues and an emphasis on fiscal incentives for growth. This includes the ending of the annual updating of spending needs and revenue assessments, and the introduction of the business rates retention scheme (BRRS) – whereby councils retain up to 50% of the real-terms growth in business rates revenues – in 2013–14. Such reforms look set to go further: prior to the recent election, the Department for Communities and Local Government (DCLG) and councils were working on a plan for an extended BRRS where local areas would retain 100% of the real-terms growth in business rates revenues (albeit subject to periodic partial resets);[2] and while things are less clear post-election, the Conservative Party manifesto commits the government to giving councils 'greater control over the money they raise'.[3]

It is this context of change that motivates this report. Using the latest annual surveys of council leaders and officials carried out by the Local Government Information Unit (LGiU) and PwC, we explore councils' views on service provision, as well as on the impact and potential extension of the BRRS. In particular, we analyse how councils' views on service provision and the BRRS relate to local characteristics – including the cuts they have faced, how they have fared under the BRRS thus far, and various socio-economic and political characteristics of the local area and council. We find that views on service provision differ according to whether councils have social care responsibilities. Views on the BRRS going forwards are related to experience with the scheme so far, recent economic growth, political make-up and local spending needs. It therefore seems likely to be difficult to develop detailed proposals for financial reform that can command support across the local government sector.

The rest of the report is organised as follows. Chapter 2 provides a brief description and summary of the two surveys utilised in this report. Chapter 3 sets out our main analysis of the factors linked to differences in council leaders' and officials' views on service provision, financial sustainability and the BRRS. Chapter 4 concludes with a discussion of the implications of our key findings.

The report, written collaboratively by IFS, LGiU and PwC, is part of a broader programme of research at IFS, funded and supported by the IFS Local Government Finance Consortium, on the changing system of local government finance. This includes analysis of past changes, proposed reforms and options for further fiscal devolution.

[1] Amin-Smith et al., 2016.

[2] Department for Communities and Local Government, 2017.

[3] Conservative Party, 2017.

2. The PwC and LGiU surveys

PwC and the LGiU each conduct annual surveys to elicit the views of senior elected members and local government officers on a range of key issues affecting the sector. PwC's survey, *The Local State We're In*, covers a range of topics including digital and data strategy, public service reform, financial sustainability, and devolution and fiscal reform. LGiU's survey, *State of Local Government Finance*, focuses more particularly on budgets, financial sustainability and fiscal reform. Both have been running since 2011.

In using these surveys, it is important to bear in mind that the opinions elicited are the *stated* views of the surveyed individuals only: their views may not reflect the wider views of other council staff or residents; and their *stated* views may not always reflect their *actual* views, especially if they feel they have a strategic incentive to respond in a certain way (for instance, if they feel their responses may influence perceptions of them or their council). Nevertheless, such surveys do provide useful insights into local decision-makers' thinking on key issues facing their councils.

2.1 Survey targeting and respondents

Both surveys are sent to representatives in all English and Welsh local authorities (excluding town/parish/community councils), with PwC's survey also including Scotland. However, in this report, we focus on responses from England only (given the bigger changes to funding levels and the funding system in England).

In the most recent wave, carried out in early 2017, LGiU surveyed 1,160 people and received 157 responses from 126 English local authorities which represent a combined

Table 2.1. Breakdown of type of local authorities responding to PwC and LGiU surveys

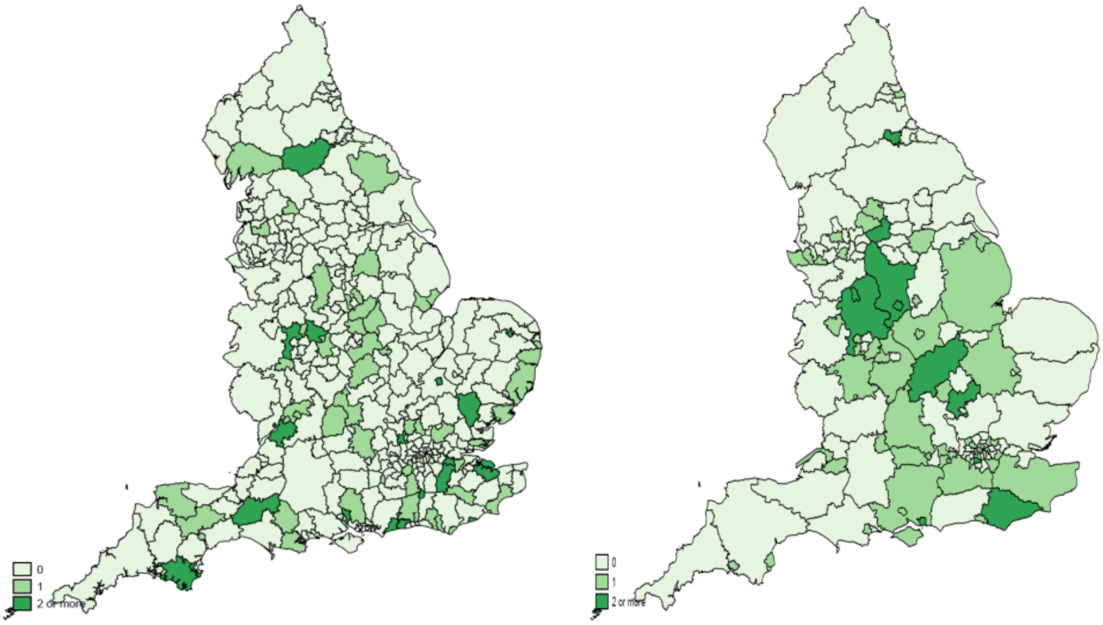
Type of council	Number of unique councils (PwC)	Number of unique councils (LGiU)	Total number of English councils
Upper or single tier			
County council	11 (41%)	13 (48%)	27
Unitary authority	21 (38%)	22 (40%)	55
Metropolitan borough	9 (25%)	13 (36%)	36
London borough	11 (34%)	13 (41%)	32
Lower tier			
Non-metropolitan district	32 (16%)	65 (32%)	201
Total	84 (24%)	126 (36%)	351

Note: The total number of councils in England reported covers only those types of council listed in the table.

Source: Authors' analysis of LGiU and PwC survey data.

Figure 2.1. Number of responses to LGiU survey by council (England)

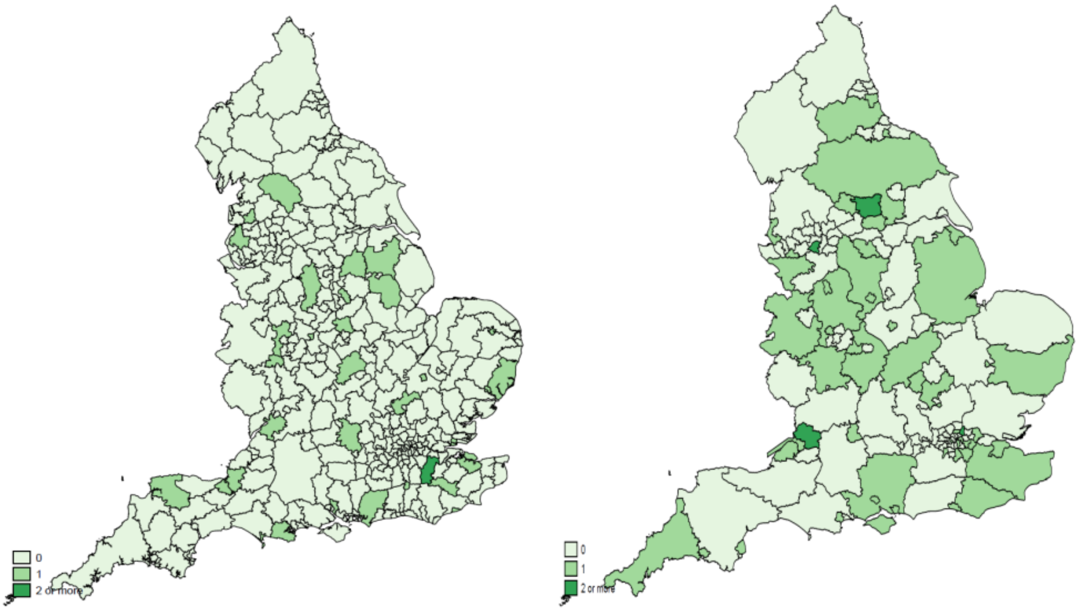
Lower-tier councils | **Upper- or single-tier councils**



Source: Authors' analysis of LGiU survey data, using maps from UK Data Service (http://infuse.ukdataservice.ac.uk/help/definitions/2011geographies/index.html) and Office for National Statistics (http://geoportal.statistics.gov.uk/datasets/687f346f5023410ba86615655ff33ca9_1).

Figure 2.2. Number of responses to PwC survey by council (England)

Lower-tier councils | **Upper- or single-tier councils**



Source: Authors' analysis of PwC survey data, using maps from UK Data Service (http://infuse.ukdataservice.ac.uk/help/definitions/2011geographies/index.html) and Office for National Statistics (http://geoportal.statistics.gov.uk/datasets/687f346f5023410ba86615655ff33ca9_1).

Table 2.2. Breakdown of job role of respondents to PwC and LGiU surveys

Role	PwC survey respondents	LGiU survey respondents
Council leader	17 (19%)	37 (24%)
Lead member for finance/corporate/resources	n/a (0%)	35 (22%)
Chief executive	47 (53%)	64 (41%)
Finance/corporate/resources director	18 (20%)	21 (13%)
Other senior roles	7 (8%)	n/a (0%)
Total	89 (100%)	157 (100%)

Source: Authors' analysis of LGiU and PwC survey data.

population of approximately 30.8 million. In early 2017, PwC surveyed 2,007 people and received 89 responses from 84 English councils, representing approximately 24.8 million people. All local authority types are represented in both surveys in relatively even proportions (see Table 2.1) and both received responses from councils in every English region (see Figures 2.1 and 2.2).

The surveys were designed to capture the views of the senior decision-makers within local authorities and, in particular, those with strategic and financial oversight. Broadly, these can be categorised as: council leaders and lead members for finance (or those with equivalent titles) on the political side; and chief executives and finance directors (or those with equivalent titles) on the officer side (with the PwC survey also being answered by other senior officers in a few cases). Table 2.2 shows that of the respondents to PwC's survey, around half were chief executives, one-fifth were finance directors and another one-fifth were leaders of the council. Respondents to LGiU's survey were more likely to be politicians (around one-quarter were leaders of the council and one-fifth lead members for finance), although chief executives were also heavily represented (two-fifths of respondents).

2.2 A summary of the surveys' headline findings

The headline results from the surveys have already been published – those from the LGiU survey in February 2017 and those from the PwC survey in June 2017.[4] As a precursor to our analysis of how responses to questions on service quality and the BRRS relate to the financial, political and socio-economic characteristics of different councils, a few key findings highlighted in these earlier publications are worth noting.[5]

[4] Local Government Information Unit, 2017; PwC, 2017.

[5] Note that the headline analysis published by LGiU and PwC includes responses from councils outside England. Results reported in this section may therefore not exactly match those reported later in the report (which are based on responses in England only).

Councils are concerned about future financial sustainability and service quality

Both reports found that the majority of respondents lacked confidence about the future of local government funding. For instance, 79% of respondents to LGiU's survey had very little or no confidence in the long-term sustainability of the local government finance system, while 88% of respondents to PwC's survey believed that some local authorities will get into serious financial trouble in the next five years.

In the short term, 42% of respondents to the LGiU survey said that their 2017–18 budget would lead to cuts that were evident to the public, while around one-third of respondents to the PwC survey were *not* confident in their ability to make savings without seriously impacting service provision in 2017–18; this figure increased to almost two-thirds over a three-year horizon (to 2019–20) and around five-sixths over a five-year horizon (to 2021–22).

According to the LGiU survey, the two service areas facing the greatest immediate financial pressures are adult social care (52% of respondents put this at the top) and housing/homelessness (22%). These areas also top councils' concerns for the longer term, but a broader range of services (such as children's services, environment and waste, and roads, planning and the economy, each at 12%) feature on this list.

Focusing specifically on adult social care, while 77% of respondents to PwC's survey believed that better integration of health and social care services will improve outcomes for recipients of care, only 27% believed such integration would deliver cost savings for their council. Despite most councils planning to make use of the social care precept[6] (80% according to the LGiU survey), the vast majority (91%) expressed the view that council tax rises are not a viable way to address the social care funding gap.

Concerns about the future contrast with councils' confidence about their performance to date: nine-tenths reported to the LGiU that service quality had been sustained or improved in the prior year.

The business rates retention system

Views on the likely local impact and appropriate design of the 100% BRRS (the policy planned at the time both surveys were conducted) diverged between councils. For instance, while around half of respondents to the LGiU survey expected their council to lose out from the 100% BRRS, almost a quarter expected their council to gain. On the other hand, only one-fifth of respondents to the PwC survey reported feeling unprepared for this shift in funding.

Respondents to the LGiU survey were split roughly down the middle as to whether the 100% BRRS would incentivise growth (41%) or not (37%, with the remaining 22% being unsure). When questioned on the redistribution-versus-incentives trade-off, a majority (62%) of respondents to PwC's survey prioritised redistribution, but a sizeable minority (38%) prioritised financial incentives for growth.

[6] This allows councils with social care responsibilities to increase council tax rates by up to 5% a year in 2017–18 and 2018–19, provided that 3 percentage points of that increase is ring-fenced for adult social care.

Summary

The headline findings already published therefore show that while councils overwhelmingly express both confidence about their performance in the recent past and concerns about longer-term sustainability, there is more variation in their confidence about their position over the next one-to-three years. Councils also view the previously proposed 100% BRRS in different lights. In the next chapter, we examine how these differences in opinions relate to the characteristics of councils.

3. How do views differ across councils?

In this chapter, we match responses to the LGiU and PwC surveys with data on councils' financial, political and socio-economic characteristics. This allows us to examine the extent to which differences in council leaders' and officials' stated views on financial matters reflect differences in the type of council they work for. In doing so, we bear in mind that these stated views may not necessarily reflect their *actual* views; but even if responses are strategic, it is worthwhile examining whether they differ according to council characteristics.

In Section 3.1, we look at how stated perceptions of past and potential future changes in service quality vary across councils. We find little relationship between views on service quality in the short term and the funding levels or recent changes in these levels experienced by different councils. However, we do find a relationship over a longer (three-year) horizon. Further, there is lower stated optimism about the future among councils with social care responsibilities than among shire districts.

In Section 3.2, we look at how stated views about financial reform, and about the BRRS more particularly, vary across councils. We find that councils that are estimated to have done well under the existing BRRS are more positive about the potential impact of a 100% BRRS in their area. The strongest predictor of positive views of a 100% BRRS, though, is recent growth in the local economy – which is perhaps unsurprising, although such views may be misplaced. We also find that views on the appropriate balance between redistribution and incentives in the local government finance system differ significantly according to level of spending need, performance under the existing BRRS and political control.

3.1 Views on the quality of services

Quality of services in 2016–17

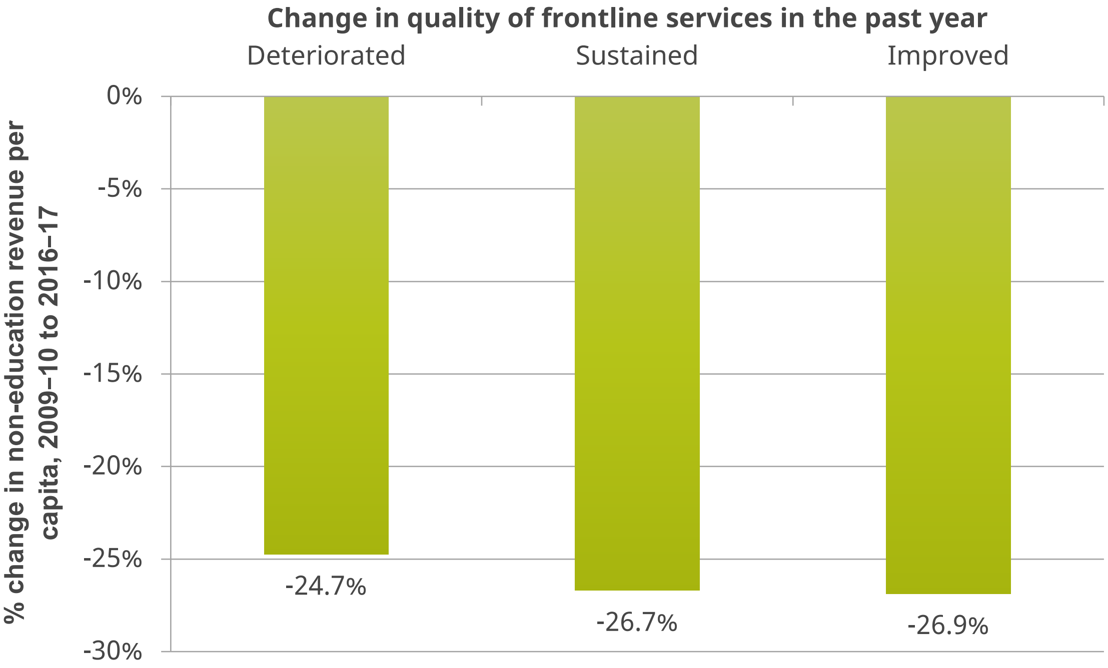
The first question we examine, taken from the LGiU's survey, is:

> Q1. How, if at all, has the quality of your frontline services changed over the last year? Deteriorated, Sustained, or Improved?

Overall, 20 survey respondents (13%) report an improvement in quality, 120 (76%) report quality has been sustained and only 17 (11%) report quality has deteriorated. This confidence in service quality is despite significant real-term cuts (an average of over one-quarter) to non-education budgets over the preceding seven years.

As shown in Amin-Smith et al. (2016), though, the scale of cuts has varied significantly around the country, with more deprived (typically urban) areas, which are more dependent on central government grants for their funding, facing the largest cuts. One might expect that respondents from such councils would be more likely to have concerns about service quality and vice versa. However, Figure 3.1 shows there is little difference between the average level of cuts faced by councils whose respondents report deterioration or improvement in service quality (indeed, while statistically insignificant,

Figure 3.1. Relationship between (Q1) perceived service quality change over the last year, and percentage cuts to non-education revenues between 2009–10 and 2016–17



Note: Revenues are calculated as council tax plus retained business rates plus revenue support grant plus specific grants for purposes other than fire, police, education and public health. In order to make revenues more consistent over time, we also adjust for changes in responsibility for certain social care functions.

Source: Authors' calculations using LGiU survey data and local authority revenue expenditure and financing statistics (https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing).

those reporting a deterioration in quality if anything faced slightly smaller cuts, on average).

Further analysis is undertaken via a series of regressions that look at the statistical relationship between responses to Q1 and various characteristics of councils. The regression results are presented in Table A.1 of Appendix A.[7] Columns 2 and 3 of the table show that we also find no statistically significant relationship between perceptions of service quality change and either the level of revenues for discretionary spending per capita or the difference between a council's share of revenues and its assessed share of spending needs (based on DCLG's 2013–14 spending needs assessment).

In the last column of Table A.1, we add additional characteristics. One notable finding is that respondents from councils with social care responsibilities (notably unitary authorities and metropolitan districts) express greater concerns about service quality over the past year, as shown in Figure 3.2. For instance, around 30% of respondents from counties and 25% of respondents from unitary authorities and metropolitan districts report a decline in service quality, as opposed to just 1% of respondents from shire districts. However, it is worth noting that a clear majority in councils with social care

[7] Statistical significance is indicated by *s in the appendix tables. The more *s reported, the more statistically significant the relationship is.

Figure 3.2. Relationship between (Q1) perceived service quality change over the last year, and council type

Source: Authors' calculations using LGiU survey data.

responsibilities report that quality has been sustained or improved (which may or may not be true).

Respondents from areas where the population aged more rapidly (measured by the percentage change in the over-65s' share of the population) in the preceding five years were also a little less optimistic about service quality in 2016–17 (although there is an almost 10% probability that this correlation is due to chance, so it is only just statistically significant).

Quality of services in 2017–18 and beyond

As well as asking about the past year (2016–17), both the LGiU and PwC surveys enquired about views on likely service standards in the coming year (2017–18), as well as the next three (to 2019–20) and five (to 2021–22) years. In particular, the LGiU asked:

Q2. Is there a danger that financial constraints will put your authority in a position where you no longer have enough funding to fulfil your statutory duties? Yes or no?

Q3. Will your 2017–18 budget lead to cuts in frontline services which will be evident to the public? Yes or no?

And PwC asked respondents a question of the form:

Q4. How confident on a scale from 1 (not at all confident) to 5 (very confident) are you that you will be able to make the necessary financial savings over the next (a) one, (b) three, (c) five years, without seriously impacting the quality of service delivery and outcomes?

Focusing first on 2017–18, while only 13% of respondents to the LGiU survey feel cuts risk their ability to perform statutory duties, 40% think they will lead to reductions in service quality or provision that are evident to the public. Similarly, 35% of respondents to the PwC survey do not express confidence in their ability to make savings without seriously impacting service delivery.[8]

How do responses vary across councils? The first three columns of Tables A.2–A.4 show that responses to these questions are uncorrelated with: the level of cuts councils have faced in recent years (column 1); their revenues relative to other councils of the same type (column 2); or the differences between their revenues and their assessed spending needs (column 3). These findings hold when we control for additional council-level characteristics (in subsequent columns of the tables).

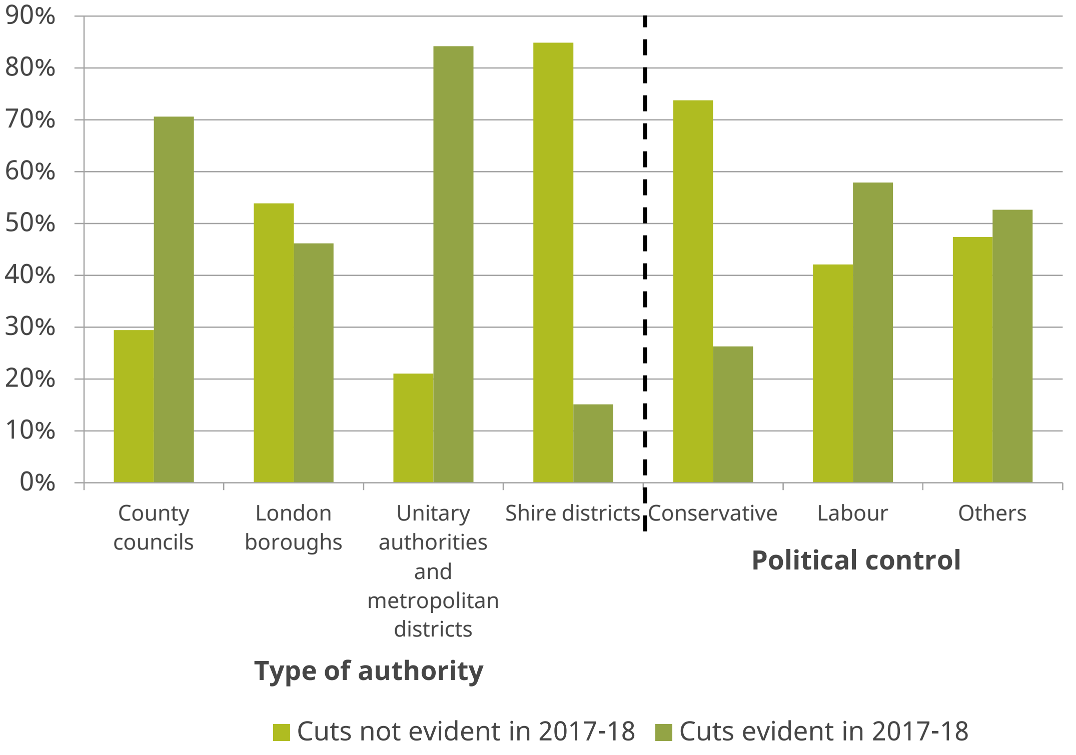
Figure 3.3 shows that responses are correlated with two features of councils – the type of council and the largest political party among councillors. Over 80% of respondents from unitary authorities and metropolitan districts, 70% from county councils and almost 50% from London boroughs responding to the LGiU's survey report that cuts will be evident, compared with just 15% of respondents from district councils. This tendency for respondents from councils with social care responsibilities to be more pessimistic holds across questions Q2 to Q4 and is statistically significant when controlling for other council characteristics (see column 4 in Tables A.2–A.4).

Of respondents from Conservative-controlled councils, 26% report a lack of confidence in their ability to deliver cuts without notable changes to service quality in 2017–18. In contrast, 58% of respondents from Labour-controlled councils and 53% from other councils report such a lack of confidence. However, it is worth noting that when other council characteristics are controlled for, this relationship is no longer always statistically significant (for instance, there are relatively more Conservative-controlled shire districts, and more Labour-controlled unitary authorities and metropolitan districts, which may drive the headline figures for political control).

Respondents' views on service provision in 2017–18 are also strongly correlated with the views on provision in 2016–17 (Figure 3.4). This could reflect a real-world phenomenon, with some councils better able to deliver cuts both historically and in the future without service standard degradation. Alternatively, it could reflect differences in the general degree of confidence of the respondents (affecting their evaluation of historical and future performance) or a so-called 'framing effect', whereby responses to a later question (for example, quality of service provision in 2017–18) are affected by respondents' desire

[8] The figures in this paragraph differ slightly from those reported in Section 2.2 as they relate to England only (as opposed to the full geographic areas covered by the surveys).

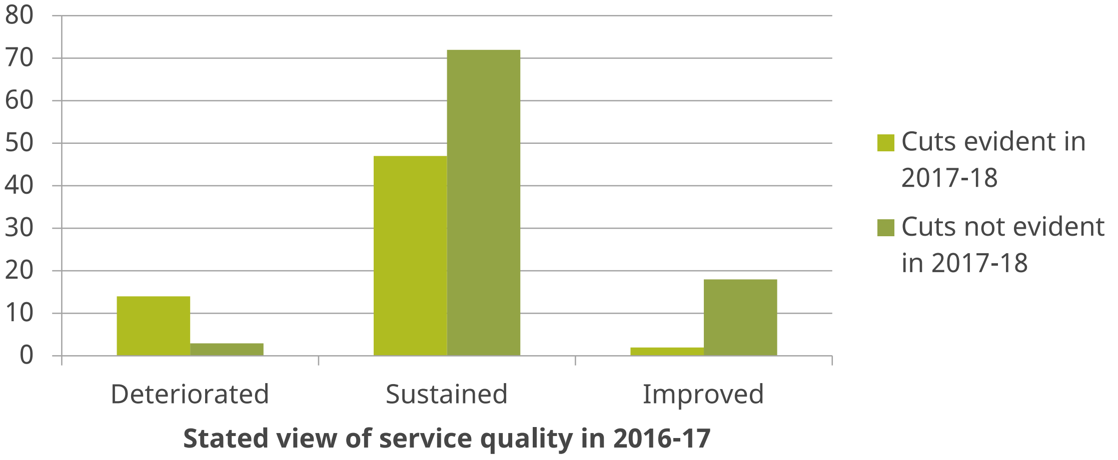
Figure 3.3. Relationship between (Q3) views on whether cuts will be evident to the public in 2017–18 and council type and political control



Note: 'Others' for political control includes councils where other parties (notably the Liberal Democrats) account for a majority of councillors and councils where no party accounts for a majority of councillors ('no overall control').

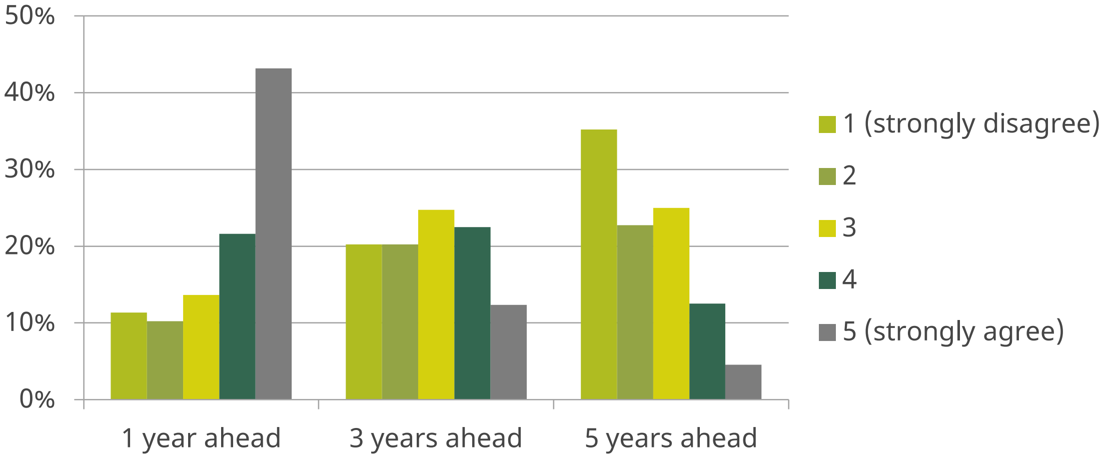
Source: Authors' calculations using LGiU survey data. The political control variable (January 2017) was provided by the LGiU.

Figure 3.4. Relationship between (Q1) views about service quality in 2016–17 and (Q3) views about service quality in 2017–18



Source: Authors' calculations using LGiU survey data.

Figure 3.5. Confidence in making savings without seriously impacting service provision over various future time horizons (one year, three years and five years ahead)



Source: Authors' calculations using PwC survey data.

to ensure consistency with an earlier question (for example, quality of service provision in 2016–17).[9]

As already discussed in Chapter 2, PwC's survey found that respondents' confidence in their council's ability to make savings declines the further into the future one looks: only 34% express such confidence over a three-year horizon and 17% over a five-year horizon. This is shown graphically in Figure 3.5.

Focusing on the three-year horizon (to 2019–20, the last year for which councils' allocations of grant funding have been set out by the DCLG), Table A.5 shows that councils with social care responsibilities remain less confident than shire districts about service delivery.

The table also shows that having controlled for council type, respondents from those councils that experienced larger cuts to their revenues between 2009–10 and 2016–17 and those forecast to experience larger cuts between 2016–17 and 2019–20 were less confident about service provision three years ahead. This contrasts with the lack of relationship between cuts and views on service quality in the past year (2016–17) and one year ahead (2017–18).

Summary

This section has examined the extent to which respondents' views on service quality relate to council characteristics. The scale of funding cuts is found to be unrelated to views on changes in service quality during 2016–17 or 2017–18, but is related to views on likely changes in service quality over the period to 2019–20. It is unclear why this is the case, but one possible explanation is that mitigation measures (such as use of reserves) can limit the impact of larger cuts in the short term but not in the longer term.

[9] These questions immediately followed each other in the LGiU survey.

The second major finding is that councils with social care responsibilities – county councils, unitary authorities, metropolitan boroughs and London boroughs – have a more negative view of service quality than district councils. This is consistent with the headline findings of the LGiU's survey, which show adult social care to be the service area of most concern to councils both in the short and longer term. It may also reflect the significant political and media attention on the issue of adult social care in early 2017, when the surveys underlying this analysis were conducted.

Since then, the March 2017 Budget announced an additional £1.0 billion of funding for adult social care in 2017–18, £0.7 billion in 2018–19 and £0.3 billion in 2019–20.[10] A Green Paper setting out options for reforming the funding of adult social care is also expected in the coming months. Analysis of whether councils with social care responsibilities remain more concerned about service quality in the next round of surveys (in 2018) would therefore be worthwhile.

3.2 Views of the business rate retention scheme (BRRS)

Since April 2013, the BRRS has allowed local areas to retain up to 50% of the real-terms growth in business rates revenues (i.e. that revenue growth which results from new developments as opposed to inflation-linked increases in the tax rate).[11] Prior to the general election this summer, the plan had been to increase the share of real-terms growth (and losses) retained locally to 100% by 2020, albeit subject to periodic (partial) resets of funding according to relative spending needs.[12]

Although the current status of these plans is unclear, it is worth examining whether differences in views about the BRRS are linked to council characteristics. We first examine views of performance under the 50% scheme, before considering views on the impact and design of the previously proposed 100% scheme. In doing this, we make extensive use of earlier calculations by IFS researchers of the relative gains and losses that councils experienced as a result of the 50% BRRS.[13]

Views on performance under the existing 50% BRRS

In the PwC survey, respondents were asked:

> Q5. Is your area one that has seen an increase or reduction in funding as a result of the business rates retention scheme? Or do you consider it not possible to determine this?

A large majority of survey respondents (60 out of 89, or 67%) reported that they did not consider it possible to judge whether their council had seen an increase or a reduction in

[10] HM Treasury, 2017.

[11] See Amin-Smith et al. (2016) for further details.

[12] See Department for Communities and Local Government (2017).

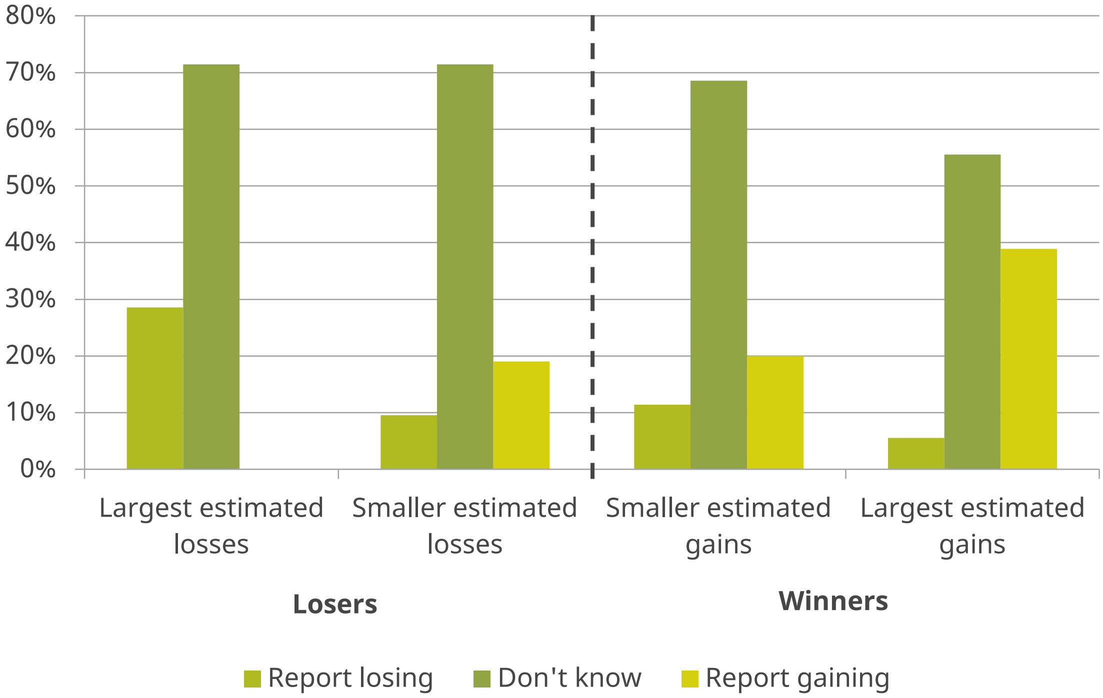
[13] Relative gains or losses are calculated by taking the income a council received from the BRRS and subtracting from this figure the amount they would have received if business rates revenues had been pooled nationally and been distributed in proportion to each council's share of the 2012–13 general grant funding (which BRRS income partly replaced). Gains and losses are expressed as a fraction of councils' overall (non-education) grant and tax revenues. Full details can be found on page 22 of Amin-Smith et al. (2016).

funding as a result of the BRRS. 18 respondents (20%) reported that they had seen an increase in funding whilst 11 (12%) reported that they had seen a reduction in funding.

That such a high proportion of senior decision-makers felt unable to judge the financial impact of the BRRS in their area may be somewhat concerning: incentives for revenue growth may be weakened if decision-makers are unable to judge the financial impact of the scheme; and financial accountability to local stakeholders may be limited if other councillors, the media and residents are also unable to judge the impact of the scheme (which seems likely).

In order to further analyse respondents' assessments of performance under the BRRS, Figure 3.6 compares their assessment with our own calculations of the relative gains and losses under the BRRS over the period 2013–14 to 2016–17, splitting respondents into four groups according to the estimated size of relative gains and losses. It shows that for each group, a majority of respondents felt unable to assess whether their council gained or lost funding as a result of the BRRS. Respondents from councils that we estimate saw a small relative gain or loss respond similarly: around 70% of both groups report being unable to determine whether their council gained or lost; 20% report gaining; and 10% report losing. In contrast, among those that we estimate to have gained the most, around 40% of respondents report that their council gained and just 5% report that their council lost

Figure 3.6. Respondents' views of the impact of the 50% BRRS on their council's revenues, grouped by scale of revenue gains and losses as estimated by IFS researchers



Note: Estimated gains and losses from the 50% scheme are calculated for the period 2013–14 to 2016–17; Amin-Smith et al. (2016) provide further details. Losers with the largest estimated losses are councils with a loss of more than 0.37%. Winners with the largest estimated gains are councils with a gain of more than 1.69%.

Source: Authors' calculations using PwC survey data and NNDR3 and NNDR1 data (see Amin-Smith et al. (2016) for further details).

funding; while among those we estimate to have lost the most, none report having gained and around 30% report that their council lost. There is therefore a statistically significant positive relationship between respondents' views of how their council has fared under the BRRS and our assessment of their council's relative gains or losses, driven by those most affected by the scheme.

It is also worth noting that one reason why so many respondents may feel unable to judge the impact of the BRRS on their council's finances (and why their assessment may differ from ours) is the lack of a definitive counterfactual: neither we nor council decision-makers can know for sure what funding allocations would have been if the government had not introduced the scheme in April 2013. Our own estimates of relative gains and losses are based on a plausible but uncertain counterfactual (see footnote 13). Nevertheless, these findings suggest that publication and dissemination of cross-council figures on relative revenue performance under the BRRS would be a useful exercise in improving understanding of the scheme's financial impacts.

Views about the future of the BRRS

Both surveys also look at respondents' views on the possible move to 100% retention. We first examine responses to a question from the LGiU survey:

> Q6. What financial impact do you think 100% business rates retention income will have on your authority in the long-term? We will gain, we will stay the same or we will lose?

Overall, respondents expressed pessimism about the long-term impact of a 100% BRRS: nearly half (48%) expected their council to lose from such a scheme; 29% expected their council's funding to be unaffected; and only 23% expected their council to gain. Such pessimism is somewhat surprising in light of the relatively strong political support for the 100% BRRS from the local government sector[14] and the fact that our own estimates suggest that nearly 70% of councils saw higher funding over the period 2013–14 to 2016–17 than they would have if business rates revenues had instead been fully pooled at a national level and redistributed.[15]

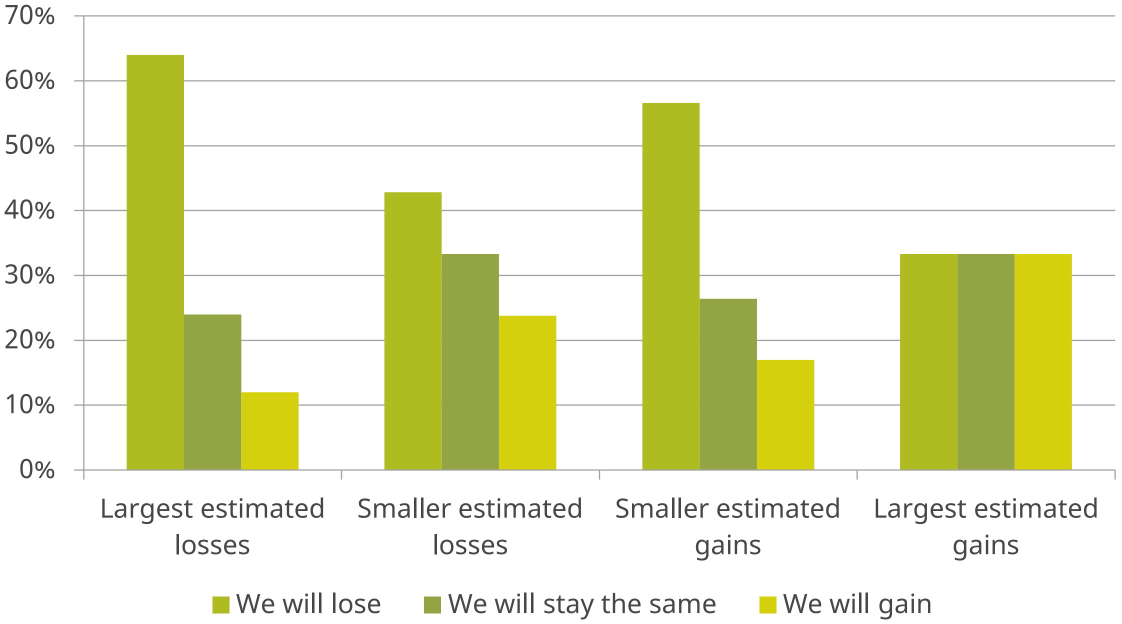
Figure 3.7 shows that respondents' views on the likely impact of the 100% BRRS on their council are correlated with our assessment of their relative gain or loss from the 50% BRRS though.[16] For instance, only 12% of respondents from councils that we estimate have seen the largest relative losses under the BRRS so far expect to gain from the 100% BRRS, while over 60% expect to lose. On the other hand, a third of those that we estimate have seen the biggest relative gains under the BRRS so far expect to gain from a 100% scheme and another third expect to lose. Table A.6 shows that this relationship is (just about) statistically significant.

[14] See, for instance, the Local Government Association's response to DCLG's initial consultation on the 100% BRRS (https://www.local.gov.uk/about/news/lga-responds-dclg-consultation-business-rates-retention).

[15] See Amin-Smith et al. (2016).

[16] Unfortunately, we cannot examine the correlation with their own view of the impact of the BRRS so far, as the questions come from different surveys (with limited sample overlap).

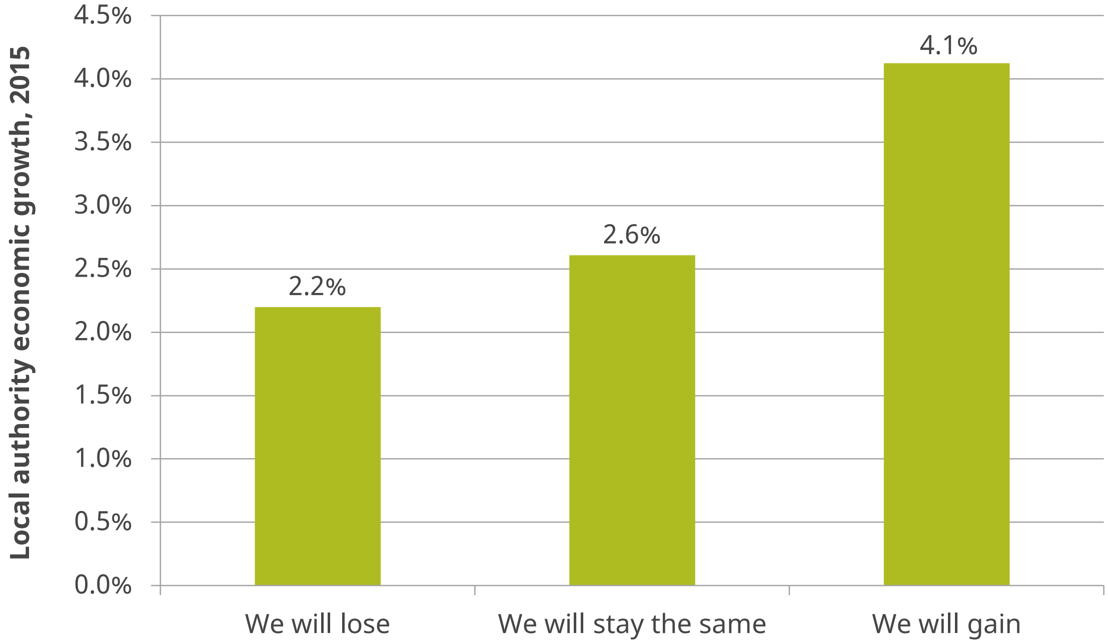
Figure 3.7. Respondents' views on the long-term financial impact of a 100% BRRS in their area, grouped by scale of revenue gains and losses as estimated by IFS researchers



Note: See note to Figure 3.6 for details of revenue gains and losses.

Source: Authors' calculations using LGiU survey data and NNDR3 and NNDR1 data (see Amin-Smith et al. (2016) for further details).

Figure 3.8. Average GVA growth in 2015, grouped by respondents' predictions of the likely impact of a 100% BRRS



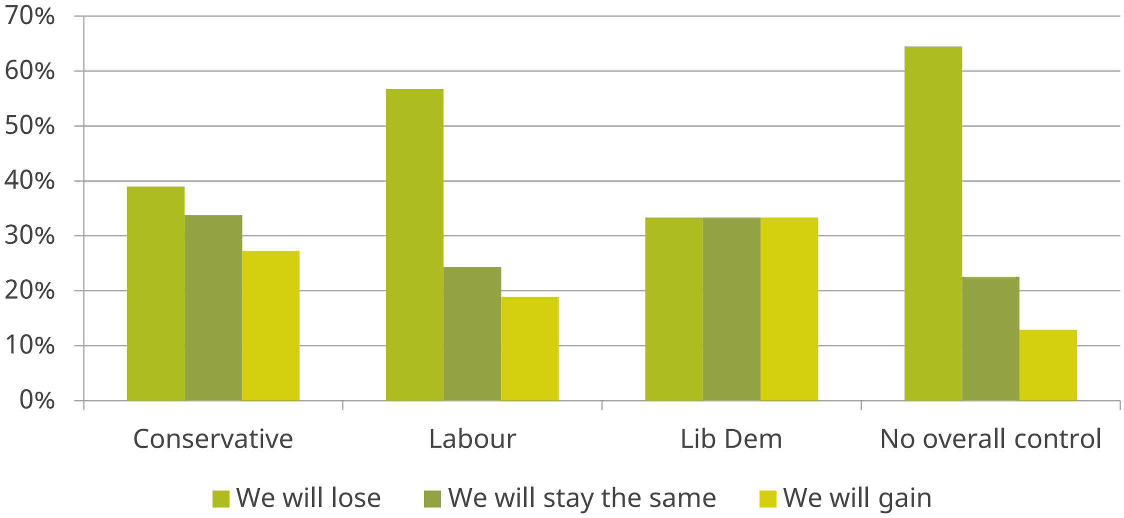
Source: Authors' calculation using LGiU survey data and ONS regional GVA data (https://www.ons.gov.uk/economy/grossvalueaddedgva/bulletins/regionalgrossvalueaddedincomeapproach/previousReleases).

Columns 2–4 of the same table show that there is a strong positive relationship between local economic growth (as measured by the change in gross value added, GVA) in the most recent year (2015) and respondents' optimism about the likely effects of a 100% BRRS. This relationship is illustrated in Figure 3.8: the average rate of growth in GVA in 2015 was 2.2% in council areas where respondents expect they would lose from a 100% BRRS, compared with 4.1% for those expecting their council to gain.

This finding is perhaps to be expected. Local GVA growth figures are likely closely watched by local decision-makers and, to the extent that past growth is indicative of future growth prospects, may be expected to indicate greater potential business rates revenue growth. However, research by the House of Commons Library finds that there was effectively no correlation between growth in GVA and growth in business rates revenues in the period between 2010 and 2015[17] – a finding that forthcoming analysis by IFS researchers confirms and extends.[18] Decision-makers' focus on GVA when assessing the likely impact of the BRRS in their area may therefore be misplaced.[19]

Columns 3 and 4 of Table A.6 also show that there is a link between the political control of a council and optimism about the impact of a 100% BRRS. Indeed, as shown in Figure 3.9, whereas a majority of respondents from councils under Labour or no overall control believe that their council would lose from a 100% BRRS, the same is true of only around

Figure 3.9. Respondents' views on the long-term financial impact of a 100% BRRS, grouped by political control of councils



Note: Only three councils controlled by the Liberal Democrats responded to the LGiU survey.

Source: Authors' calculations using LGiU survey data. The political control variable (January 2017) was provided by the LGiU.

[17] Sandford and Mor, 2017.

[18] IFS researchers are currently finalising work examining the link between spending needs (as assessed by the existing DCLG formula), local tax revenues and local socio-economic characteristics. This will be published later in Autumn 2017.

[19] While there was no relationship between GVA growth and growth in business rates revenues during a period when there was no revaluation, there was a relationship between GVA growth and increases in property values at the time of a revaluation (using values as of April 2015 instead of April 2008). See Sandford and Mor (2017).

40% of respondents from Conservative-controlled councils. Why this is the case is unclear. It could be related to the fact that the introduction and proposed extension of the BRRS were the policies of a Conservative government: party politics could influence general perceptions of the policy; or respondents may believe the government set up the scheme in a way that is of benefit to Conservative-controlled councils.[20]

Finally, column 4 of Table A.6 shows that respondents who are optimistic (pessimistic) about the general sustainability of the local government finance system are more optimistic (pessimistic) about the likely local impact of a 100% BRRS. This could reflect differences in general levels of optimism among respondents, or a framing effect whereby those answering positively or negatively to one question are more likely to answer similarly to proceeding questions.

Rather than asking respondents whether they expect their council to gain or lose from a 100% BRRS, PwC elicited views on the following statement:

> Q7. My council is prepared for the shift from grant funding to business rates income. To what extent do you agree with this statement? 1 is 'strongly disagree' and 5 is 'strongly agree'.

Column 1 of Table A.7 shows that respondents from those councils that we estimate have done relatively well from the BRRS are more likely to report that they are well prepared for the shift to funding via business rates. However, columns 3–6 of the same table show that this result is no longer statistically significant once we control for council type and political control. However, respondents' own perceptions of how their council has fared under the existing 50% BRRS (Q5 above) are positively and statistically significantly related to their view of whether their council is prepared for the funding shift (see columns 2 and 5). There is also some evidence that respondents from councils under Labour or no overall control feel that their council is less prepared for the funding shift.

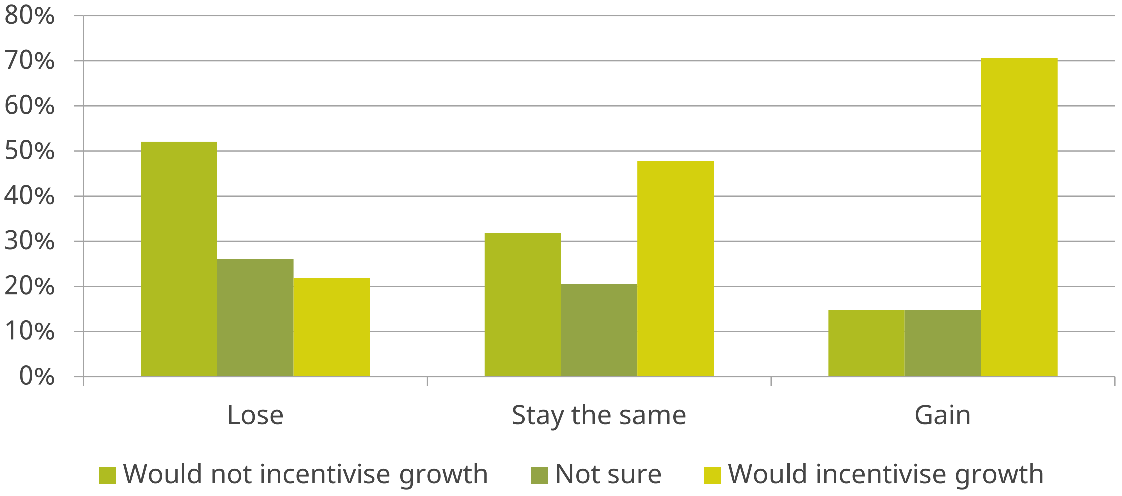
GVA growth in the most recent year (2015) is not statistically significantly related to views on preparedness. However, there is a positive and (just) statistically significant relationship between GVA growth in the period 2010 to 2015 inclusive and views on preparedness for a shift to funding via business rates.

The LGiU survey also asked respondents their views on perhaps the key motivating idea for the 100% BRRS: the idea that such a scheme will provide councils with a stronger fiscal incentive to promote local economic growth. In particular:

> Q8. In your view will 100% business rates retention incentivise local economic growth? Yes, unsure or no?

[20] Such a view would not be unreasonable: there is evidence that incumbent Westminster governments adjust local government funding regimes to provide additional revenues to councils that their party controls (see Hilber, Lyytikainen and Vermeulen (2011) for a discussion).

Figure 3.10. Relationship between respondents' views on (Q8) whether a 100% BRRS would incentivise local economic growth and (Q6) whether their council would gain or lose from such a scheme



Source: Authors' calculations using LGiU survey data.

Overall, 62 survey respondents (40%) state that they think that a 100% BRRS would incentivise local economic growth, 58 (37%) do not think it would and 35 (23%) reply that they are unsure.

Analysis reported in column 3 of Table A.8 shows that there is a statistically significant positive correlation between stated views on the likely impact of the 100% BRRS on their council's income and views about the incentive effects of the scheme. This is clearly shown in Figure 3.10: of those respondents expecting their council to gain from a 100% BRRS, around 70% believe such a scheme will provide incentives for growth, whereas only around 20% of those expecting to lose are similarly persuaded. Column 4 of Table A.8 shows that there is also a strong link between optimism about the sustainability of the local government finance system and views on the incentive effects of a 100% BRRS.

There are a number of possible explanations for such findings. First is that respondents differ with respect to their general degree of confidence or optimism, and this influences their response to each question (or that 'framing effects' influence responses to questions asked in near-sequence). Second is that those respondents who state that they believe that the BRRS is likely to incentivise growth are factoring in increases in income as a result of faster growth when considering the likely effects of a 100% BRRS in their area, and when considering the sustainability of the local government finance system as a whole. Third is that respondents may be conflating the (local) financial impact of a 100% BRRS with its broader incentive effects: one could still have an incentive to promote economic development, due to increases in retained business rates revenues at the margin, even if one were expected to lose overall from the scheme (due to other factors impacting economic and/or revenue performance). If the last is the case, it would imply a fundamental misunderstanding by local decision-makers about the nature of fiscal incentives under local revenue retention schemes such as the BRRS, which are based on *marginal* gains or losses rather than *overall* gains or losses. As it is, we cannot ascertain the extent to which each of these explanations contributes to the strong correlation between survey responses found.

The final question we consider, asked by PwC, aims to elicit the views of respondents on the design of the BRRS:

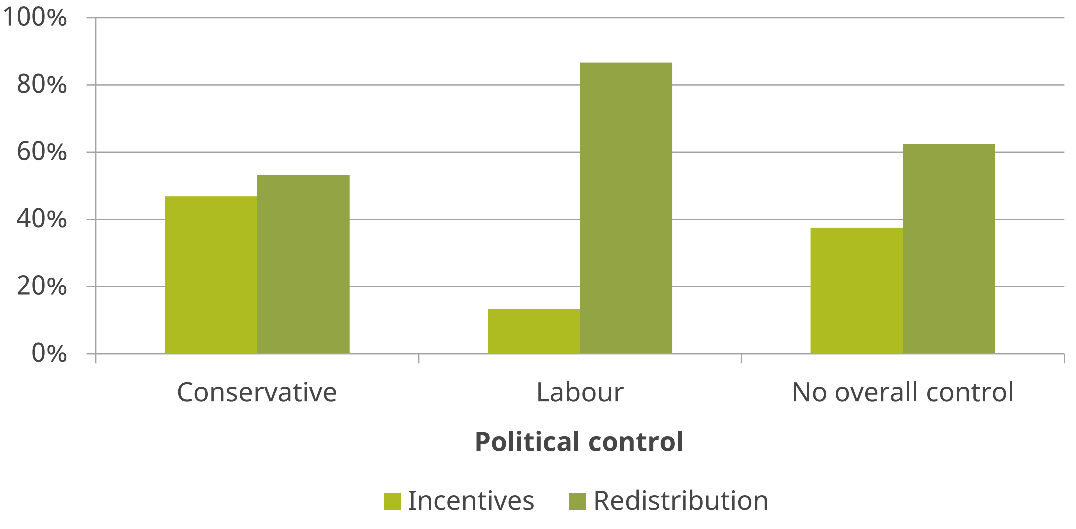
> Q9. What is more important to you in terms of how national policy on business rates retention is set: that (a) local areas largely retain the proceeds of local revenue growth even if that means divergences in funding and the ability to provide services or (b) revenues are largely redistributed to ensure that all areas can provide services to their citizens to a reasonable standard even if that blunts the financial incentive to grow local revenues?

The first thing to note is that despite moves away from redistribution and a greater emphasis on fiscal incentives in recent years, a majority (63%) of respondents indicate a preference for a system that prioritises redistribution. If plans for a 100% BRRS are resurrected, this would suggest that the system would need regular and comprehensive (although not necessarily full) resets of funding according to relative spending need and robust safety-net mechanisms in order to command widespread support across local government.

Views also differ according to the characteristics of areas. Figure 3.11 shows that respondents from councils controlled by Labour have an overwhelming preference for redistribution (almost 90%), whereas those from councils controlled by the Conservatives have an almost equal split between redistribution (53%) and incentives (47%). This pattern is not necessarily driven by the party politics of the respondent: in fact, only officers (rather than elected officials) responded to this question.

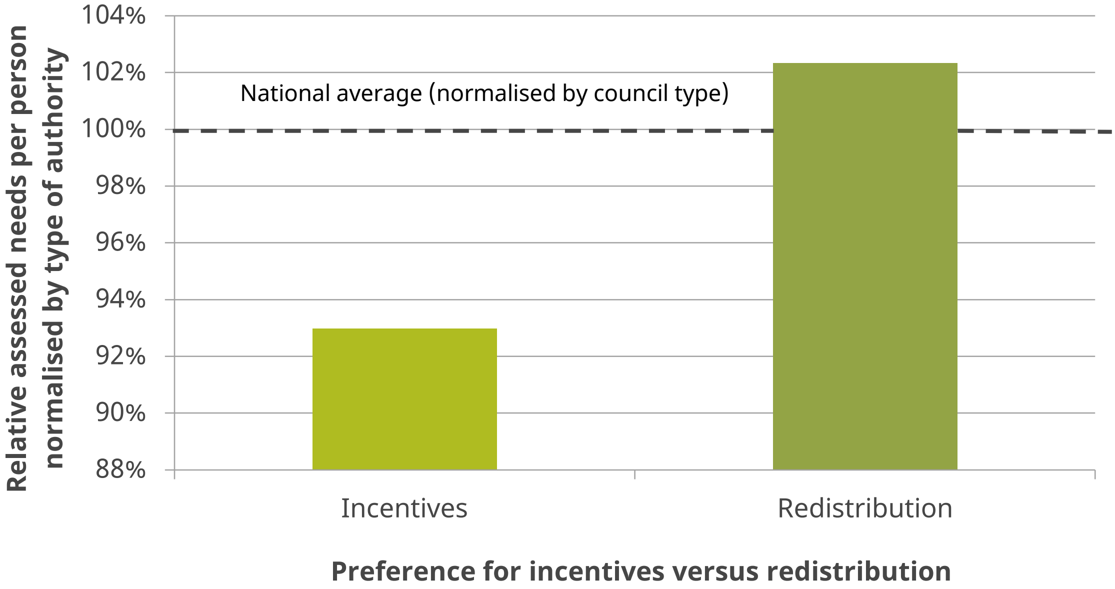
Column 3 of Table A.9 shows that this result is no longer statistically significant once other council characteristics are controlled for. In particular, it appears that this correlation is driven to an extent by the fact that Labour tends to control councils with higher assessed

Figure 3.11. Preferences over incentives versus redistribution, by political control of respondent's council



Source: Authors' calculations using PwC survey data. The political control variable (January 2017) was provided by the LGiU.

Figure 3.12. Councils' relative assessed spending need per capita, by respondent's preference for incentives or redistribution



Note: 100% indicates an average level of assessed spending need per resident, normalised by council type.

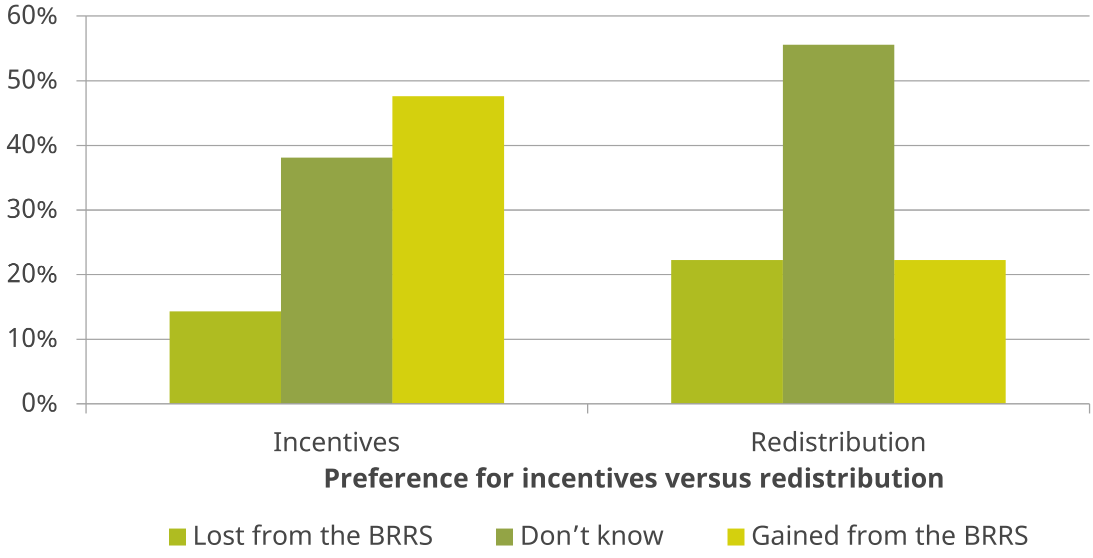
Source: Authors' calculations using PwC survey data and DCLG's relative spending needs formula.

spending needs (typically poorer, more urban areas), and higher levels of assessed spending needs are associated with respondents' preferences for redistribution. This is illustrated in Figure 3.12, which shows that among those councils where the respondent expresses a preference for incentives, relative spending needs per capita are, on average, 93% of the national average. In contrast, among those councils where the respondent expresses a preference for redistribution, relative spending needs per capita are, on average, 102% of the national average.

A plausible interpretation of this is that responses reflect a degree of self-interest: respondents from areas with relatively high spending needs having a preference for redistribution over fiscal incentives, in the belief that such redistribution would benefit their council. This is an issue to which IFS researchers will return in upcoming research that will examine how local tax revenues and assessed spending needs changed historically in areas starting off with different levels of revenues and spending needs. Here, we note that if there is convergence (rather than divergence) in spending needs over time, it need not be the case that ongoing redistribution is of benefit to areas starting with relatively high levels of spending needs.

Column 3 of Table A.9 also shows that other variables that might be expected to be correlated with respondents' views of the appropriate design of the BRRS are, in fact, not. This includes: our estimates of their relative gains or losses under the existing BRRS; recent economic growth; local rateable value (the business rates tax base); and 'gearing', which measures the effect of a 1% increase in overall business rates revenue on the amount of business rates retained by the council in question. Figure 3.13 shows that there is a relationship between respondents' views on whether their council has gained or lost from the BRRS so far and their preferences for redistribution versus incentives. For instance, of those expressing a preference for incentives, almost four times as many (48%)

Figure 3.13. Respondents' views on gains or losses under the existing BRRS, by their preference for incentives or redistribution



Source: Authors' calculations using PwC survey data.

were of the view that their council had gained from the BRRS as were of the view that it had lost (14%). In contrast, among those expressing a preference for redistribution, equal numbers were of the view that they had gained and lost (both 22%).

Summary

This section has examined how views of the BRRS vary across councils. Looking backwards, most respondents feel unable to state whether their council has gained or lost from the BRRS. This may reflect a lack of clear counterfactual with which to compare outcomes, but suggests provision of additional comparative information about income under the BRRS would be worthwhile.

Looking ahead, we find significant differences in the degree of optimism about the BRRS and in preferences over the BRRS. Respondents from councils that have done better under the existing BRRS according to our estimates, and those where recent economic growth has been faster, are more optimistic about the impact of an extended BRRS in their area. Respondents from Conservative-controlled councils are also more optimistic than those from other councils. Positive views on the incentive effects of a 100% BRRS are strongly linked to positive views on the impact of such a scheme in a respondent's own area and on the general sustainability of local government finance. This may reflect the fact that some respondents are just generally more confident about the future than others. Finally, views on the appropriate balance between redistribution and incentives differ between councils controlled by the Conservatives and by Labour, in part because Labour-controlled councils tend to have higher levels of spending needs. Taken together, these findings suggest significant doubts within a large number of councils about the impacts of extending the BRRS, and imply that it might be difficult to design a scheme that can meet the expectations of local decision-makers, whose preferences for incentives versus redistribution differ systematically around the country.

4. Conclusion

This report has examined how council decision-makers' views on service quality and the BRRS relate to the characteristics of their areas. This is in the context of cuts to budgets that have varied significantly around England, and differences in the impact of the existing BRRS and in economic performance over the last few years. Several findings stand out.

First is that responses to questions on changes in service quality in 2016–17 (the 'past year') and 2017–18 (the 'next year') are uncorrelated with either the level of revenues per capita or recent changes in revenue per capita. However, changes in revenues per capita over the last seven years and over the next couple of years are related to views on likely changes in service quality over the period to 2019–20: larger cuts are associated with greater pessimism.

The second major finding is that councils with social care responsibilities – county councils, unitary authorities, metropolitan boroughs and London boroughs – have a more negative view of service quality than district councils. This is consistent with the headline findings of the LGiU's survey, which show adult social care to be the service area of most concern to councils both in the short and longer term. It may also reflect the significant political and media attention on the issue of adult social care in early 2017, when the surveys underlying this analysis were conducted.

Since then, the March 2017 Budget announced an additional £1.0 billion of funding for adult social care in 2017–18, £0.7 billion in 2018–19 and £0.3 billion in 2019–20.[21] A Green Paper setting out options for reforming the funding of adult social care is also expected in the coming months. Analysis of whether councils with social care responsibilities remain more concerned about service quality in the next round of surveys (in 2018) would therefore be worthwhile. IFS researchers will also be examining the case for – and potential impact of – centralised needs-based funding for adult social care in the coming months.

Turning to the BRRS, the first thing to note is that the policy context has changed since the LGiU and PwC surveys underlying this report were conducted (in early 2017). At that stage, there were firm plans for implementing a system of 100% local retention of revenue growth (and, to an extent, losses) by 2020; however, the legislation to implement these changes was not reintroduced following the formation of a new minority Conservative government following the June snap election. This gives more time for the government, councils and other stakeholders to reflect on the best way forward for local government finance reform. Several findings from our analysis seem relevant for this.

First is that while there is some link between respondents' perceptions of their council's performance under the BRRS and our own estimates, a large majority feel unable to ascertain whether their council has gained or lost from the existing scheme. In part, this may reflect the lack of a clear counterfactual: we cannot know for sure what funding allocations would have been if the BRRS had not been introduced. But it also suggests that the information available to local decision-makers about business rates revenue performance could be improved. Such information should be made as comparable across councils as possible and disseminated widely. This could increase the extent to which the

[21] HM Treasury, 2017.

media and local residents can hold councils to account for local business rates revenue performance (this 'accountability' argument for tax devolution has featured heavily in debates about devolution to Scotland and Wales, but much less so for local government, where the emphasis has been very much on the direct fiscal incentives).

Second is that there is a degree of pessimism about the likely local impact and incentive effects of an extended BRRS: more respondents express the view that their area would lose from such a scheme than that it would gain; and only a minority believe such a scheme would provide an incentive for local economic growth. Positive views are more likely to be expressed in areas that we estimate have done relatively well under the existing 50% BRRS and (in the case of local financial impacts of a 100% scheme) in areas where recent economic growth has been higher. These findings are perhaps unsurprising, but the belief that high rates of GVA growth will translate into gains under a 100% BRRS may be misplaced: research by the House of Commons Library finds virtually no link between the portion of business rates revenue growth retained under the BRRS and local economic growth in the recent past.[22] This may be because changes in non-domestic floor space (which is, in effect, what drives business rates revenue growth between revaluations) need not necessarily be linked to changes in overall economic activity (which may involve more valuable use or intense use of existing floor space). Further analysis of the extent to which greater devolution of business rates (and other areas of tax and spending) would be beneficial in incentivising local growth and improving financial accountability, and the potential impacts of such devolution in different parts of the country, would therefore be worthwhile.

It is also worth noting that views on these questions are highly correlated, which may be because those believing the scheme will provide an incentive for growth think that this incentive effect will boost revenues in their area. However, it could also simply reflect the fact that some respondents are more generally confident about the future than others.

Finally, our analysis has shown systematic differences in preferences over redistribution and fiscal incentives for growth: respondents from councils controlled by Labour, and from areas with higher assessed spending needs, are more likely to prioritise redistribution. This could reflect genuine differences in innate preferences, or may reflect a degree of self-interest: respondents may expect their council to do relatively better under such a scheme than under one placing greater emphasis on revenue retention and fiscal incentives.

It is worth noting that this survey question was designed to elicit views about the redistribution of local revenue *growth*, rather than the existing stock of revenues (which would continue to be redistributed by an updated set of 'tariffs' and 'top-ups' as under the existing BRRS).[23] If areas with high spending needs were to see lower revenue growth and/or faster growth in spending needs (i.e. further divergence from the average council), more ongoing redistribution of revenue growth would be of benefit to such councils. On the other hand, if there were convergence in spending needs and/or revenue growth, ongoing redistribution of growth might actually be costly to such councils. The changing patterns of local tax revenues and relative (assessed) spending needs will be the subject of IFS's next report on local government finance.

22 Sandford and Mor, 2017.

23 Department for Communities and Local Government, 2017.

Appendix A. Regression results

Table A.1. Relationship between (Q1) respondents' views on change in quality of frontline services over past year (2 = improved; 1 = sustained; 0 = deteriorated) and local characteristics

	(1)	(2)	(3)	(4)
% change in revenue for discretionary spending per capita between 2009–10 and 2016–17	–1.300 (–0.65)			–3.958 (–1.08)
Revenues for discretionary spending per capita (indexed, mean = 100), 2016–17		1.206 (0.96)		–0.568 (–0.25)
Difference between revenues and needs per capita, 2016–17			1.184 (0.74)	3.651 (1.05)
Proportion of population that are aged 65 and above, 2016				11.75 (1.54)
Percentage point change in elderly population (65+) between 2011 and 2016				–59.29* (–1.74)
County council				–1.520** (–2.02)
London borough				–0.704 (–0.82)
Unitary authority or metropolitan district				–1.713*** (–2.89)
Under Labour control				–0.0889 (–0.14)
Under Liberal Democrat control				0.767 (0.81)
No overall control				–0.659 (–1.24)
Respondent is in a finance role				–0.362 (–0.82)
Respondent is in an elected role				0.397 (0.98)
N	157	157	157	157

Note: Ordered logit regression. Regressions include constants (not reported). * indicates statistical significance at the 10% level, ** at the 5% level and *** at the 1% level. The numbers in parentheses are t-statistics. A positive coefficient indicates that a variable is associated with a more *positive* view about service quality, and vice versa.

Table A.2. Relationship between (Q2) respondents' views on whether there is a danger that financial constraints will put their authority in a position where they no longer have enough funding to fulfil their statutory duties in 2017–18 (1 = yes; 0 = no) and local characteristics

	(1)	(2)	(3)	(4)
% change in revenue for discretionary spending per capita between 2009–10 and 2016–17	1.170 (0.85)			0.433 (0.13)
Revenues for discretionary spending per capita (indexed, mean = 100), 2016–17		0.804 (0.93)		2.014 (0.95)
Difference between revenues and needs per capita, 2016–17			1.178 (1.05)	−0.528 (−0.17)
Grant dependence, 2016–17				−0.373 (−0.18)
Proportion of population that are aged 65 and above, 2016				4.140 (0.78)
Forecast percentage point change in elderly population (65+) five years ahead, 2016				−9.246 (−0.24)
County council				1.333** (2.07)
London borough				1.353* (1.93)
Unitary authority or metropolitan district				1.511*** (3.51)
Under Labour control				−0.0419 (−0.08)
Under Liberal Democrat control				n/a (n/a)
No overall control				0.588 (1.55)
Respondent is in a finance role				−0.246 (−0.77)
Respondent is in an elected role				0.563* (1.76)
N	157	157	157	151

Note: Probit regression. Regressions include constants (not reported). * indicates statistical significance at the 10% level, ** at the 5% level and *** at the 1% level. The numbers in parentheses are t-statistics. A positive coefficient indicates that a variable is associated with a more *negative* view about ability to provide statutory services in 2017–18, and vice versa. Results are not available for the Liberal Democrat variable as all six of the respondents from councils controlled by the Liberal Democrats responded 'No' to this question (such perfect predictors need to be dropped from probit regressions).

Table A.3. Relationship between (Q3) respondents' views on whether their budget will lead to cuts in frontline services which will be evident to the public in 2017–18 (1 = yes; 0 = no) and local characteristics

	(1)	(2)	(3)	(4)	(5)
% change in revenue for discretionary spending per capita between 2009–10 and 2016–17	−1.758 (−1.50)			1.011 (0.39)	0.633 (0.23)
Revenues for discretionary spending per capita (indexed, mean = 100), 2016–17		−0.822 (−1.14)		0.301 (0.17)	−0.00525 (−0.00)
Difference between revenues and needs per capita, 2016–17			−1.405 (−1.54)	−2.533 (−1.01)	−2.207 (−0.86)
Grant dependence, 2016–17				0.849 (0.55)	0.841 (0.54)
Proportion of population that are aged 65 and above, 2016				−0.690 (−0.15)	−0.352 (−0.07)
Forecast percentage point change in elderly population (65+) five years ahead, 2016				−10.61 (−0.34)	−17.21 (−0.52)
County council				1.579*** (3.19)	1.403*** (2.71)
London borough				0.666 (1.29)	0.507 (0.96)
Unitary authority or metropolitan district				1.845*** (5.53)	1.706*** (4.99)
Under Labour control				0.574 (1.39)	0.640 (1.47)
Under Liberal Democrat control				0.221 (0.31)	0.252 (0.34)
No overall control				0.656* (1.91)	0.601* (1.69)
Respondent is in a finance role				0.0879 (0.32)	0.0206 (0.07)
Respondent is in an elected role				0.0602 (0.24)	0.106 (0.41)
How has the quality of your frontline service changed over the last year?[a]					−0.871*** (−2.66)
N	156	156	156	156	156

[a] 2 = improved; 1 = sustained; 0 = deteriorated

Note: Probit regression. Regressions include constants (not reported). * indicates statistical significance at the 10% level, ** at the 5% level and *** at the 1% level. The numbers in parentheses are t-statistics. A positive coefficient indicates that a variable is associated with a more *negative* view about service quality in 2017–18, and vice versa.

Table A.4. Relationship between (Q4) respondents' confidence in making savings without seriously impacting service provision (one year ahead) (5 = confident, …, 1 = not at all confident) and local characteristics

	(1)	(2)	(3)	(4)
% change in revenue for discretionary spending per capita between 2009–10 and 2016–17	0.693 (0.34)			4.004 (0.89)
Revenues for discretionary spending per capita (indexed, mean = 100), 2016–17		0.542 (0.38)		0.514 (0.17)
Difference between revenues and needs per capita, 2016–17			1.546 (0.80)	−1.866 (−0.40)
Grant dependence, 2016–17				−3.217 (−1.02)
Proportion of population that are aged 65 and above, 2016				−1.478 (−0.17)
Forecast percentage point change in elderly population (65+) five years ahead, 2016				−41.84 (−0.77)
County council				−2.393** (−2.47)
London borough				−0.567 (−0.61)
Unitary authority or metropolitan district				−2.015*** (−3.37)
Under Labour control				0.205 (0.31)
Under Liberal Democrat control				−0.476 (−0.33)
No overall control				−0.241 (−0.35)
Respondent is in a finance role				−0.339 (−0.61)
Respondent is in an elected role				0.173 (0.28)
N	88	88	88	88

Note: Ordered logit regression. Regressions include constants (not reported). * indicates statistical significance at the 10% level, ** at the 5% level and *** at the 1% level. The numbers in parentheses are t-statistics. A positive coefficient indicates that a variable is associated with a more *positive* view about service quality in 2017–18, and vice versa.

Table A.5. Relationship between (Q4) respondents' confidence in making savings without seriously impacting service provision (three years ahead) (5 = confident, …, 1 = not at all confident) and local characteristics

	(1)	(2)	(3)	(4)
% change in revenue for discretionary spending per capita between 2009–10 and 2016–17	2.927 (1.50)			9.747** (2.21)
Revenues for discretionary spending per capita (indexed, mean = 100), 2016–17		0.0598 (0.05)		2.424 (0.81)
Difference between revenues and needs per capita, 2016–17			1.446 (0.84)	−5.299 (−1.16)
% change in forecast core spending power between 2016–17 and 2019–20				26.44** (2.16)
Grant dependence, 2016–17				−3.406 (−1.29)
Proportion of population that are aged 65 and above, 2016				−16.91* (−1.92)
Forecast percentage point change in elderly population (65+) three years ahead, 2016				−97.48 (−1.11)
County council				−6.543*** (−2.86)
London borough				−4.401** (−2.22)
Unitary authority or metropolitan district				−5.128*** (−2.79)
Under Labour control				−0.607 (−0.97)
Under Liberal Democrat control				1.712 (1.28)
No overall control				−1.247* (−1.80)
Respondent is in a finance role				−0.325 (−0.60)
Respondent is in an elected role				0.177 (0.31)
N	89	89	89	89

Note: Ordered logit regression. Regressions include constants (not reported). * indicates statistical significance at the 10% level, ** at the 5% level and *** at the 1% level. The numbers in parentheses are t-statistics. A positive coefficient indicates that a variable is associated with a more *positive* view about service quality in 2017–18, and vice versa.

Table A.6. Relationship between (Q6) respondents' views on the long-term impact of a 100% BRRS on their authority (2 = we will gain; 1 = we will stay the same; 0 = we will lose) and local characteristics

	(1)	(2)	(3)	(4)
Win(+)/loss(−) % from the BRRS between 2013–14 and 2016–17	11.58* (1.90)	12.44** (2.01)	11.45* (1.67)	10.69 (1.57)
Non-domestic rateable value, 2015–16		0.00327 (1.17)	0.00188 (0.65)	0.00138 (0.46)
Annual GVA growth, 2015		24.89*** (3.24)	25.77*** (3.32)	28.03*** (3.52)
GVA per capita, 2015		0.0000112 (0.53)	0.0000233 (1.02)	0.0000304 (1.27)
Workplace population, 2015		−0.00000548 (−0.98)	−0.00000341 (−0.58)	−0.00000202 (−0.34)
County council			0.490 (0.48)	0.369 (0.36)
London borough			−0.213 (−0.29)	−0.257 (−0.35)
Unitary authority or metropolitan district			0.607 (1.27)	0.579 (1.19)
Under Labour control			−0.895** (−1.97)	−0.805* (−1.76)
Under Liberal Democrat control			0.381 (0.48)	0.566 (0.67)
No overall control			−0.923** (−2.01)	−0.722 (−1.50)
Respondent is in a finance role			−0.0183 (−0.05)	−0.133 (−0.36)
Respondent is in an elected role			0.181 (0.53)	0.174 (0.49)
How confident do you feel about the sustainability of local government finance?[a]				0.589** (2.28)
N	151	151	151	147

[a] 5 = very confident, …, 1 = not at all confident.

Note: Ordered logit regression. Regressions include constants (not reported). * indicates statistical significance at the 10% level, ** at the 5% level and *** at the 1% level. The numbers in parentheses are t-statistics. A positive coefficient indicates that a variable is associated with a more *positive* view about the long-run impact of a 100% BRRS, and vice versa.

Table A.7. Relationship between (Q7) respondents' views on their preparedness for the shift from grant funding to business rates income (5 = strongly agree, …, 1 = strongly disagree) and local characteristics

	(1)	(2)	(3)	(4)	(5)	(6)
Win(+)/loss(−) % from the BRRS between 2013–14 and 2016–17	14.62* (1.87)		8.796 (0.93)	6.877 (0.75)	5.125 (0.54)	13.85 (1.41)
Grant dependence, 2016–17			5.226* (1.86)	5.080* (1.83)	5.400** (2.01)	
What has been the impact of the BRRS on your area's funding?[a]		1.034*** (2.68)			0.870** (2.03)	
Annual GVA growth, 2015			0.513 (0.05)		0.996 (0.09)	−0.739 (−0.07)
Non-domestic rateable value, 2015–16			0.00000722 (0.01)	−0.000165 (−0.15)	−0.000436 (−0.37)	−0.000551 (−0.45)
County council			0.362 (0.34)	0.375 (0.37)	0.672 (0.63)	0.350 (0.32)
London borough			−0.00271 (−0.00)	−0.681 (−0.68)	0.00951 (0.01)	−0.792 (−0.71)
Unitary authority or metropolitan district			0.133 (0.21)	0.184 (0.30)	0.129 (0.21)	−0.263 (−0.40)
Under Labour control			−1.092* (−1.75)	−1.155* (−1.84)	−1.031* (−1.66)	−0.633 (−1.00)
Under Liberal Democrat control			1.518 (1.06)	1.768 (1.23)	1.647 (1.15)	0.286 (0.20)
No overall control			−1.457** (−2.13)	−1.573** (−2.27)	−1.088 (−1.53)	−1.304* (−1.80)
Respondent is in a finance role			0.0675 (0.12)	0.0732 (0.13)	0.146 (0.25)	0.0726 (0.13)
Respondent is in an elected role			−0.0830 (−0.13)	−0.0697 (−0.11)	0.00986 (0.02)	−0.0820 (−0.13)
GVA growth, 2010 to 2015				6.347* (1.66)		
Assessed need per capita, 2013–14 (indexed, mean = 100)						−3.662 (−1.15)
Revenues for discretionary spending per capita, 2016–17 (indexed, mean = 100)						1.827 (0.68)
Proportion of population that are aged 65 and above, 2016						−14.44* (−1.83)
N	79	79	79	79	79	79

[a] 3 = increased; 2 = don't know; 1 = decreased.

Note: Ordered logit regression. Regressions include constants (not reported). * indicates statistical significance at the 10% level, ** at the 5% level and *** at the 1% level. The numbers in parentheses are t-statistics. A positive coefficient indicates that a variable is associated with a more *positive* view about preparedness for a shift to funding via a 100% BRRS, and vice versa.

Table A.8. Relationship between (Q8) respondents' views on whether a 100% BRRS will incentivise local economic growth (2 = yes; 1 = don't know; 0 = no) and local characteristics

	(1)	(2)	(3)	(4)	(5)
Win(+)/loss(−) % from the BRRS between 2013–14 and 2016–17	8.355 (1.44)		7.562 (1.09)	10.28 (1.40)	17.88** (2.33)
Non-domestic rateable value, 2015–16			0.000199 (0.19)	0.000956 (0.89)	0.000763 (0.71)
Under Labour control		−0.497 (−1.29)			
Under Liberal Democrat control		0.465 (0.62)			
No overall control		−1.331*** (−3.33)			
Annual GVA growth, 2015			−16.01** (−2.14)	−1.843 (−0.26)	−2.841 (−0.42)
County council			0.695 (0.78)	0.309 (0.37)	0.519 (0.60)
London borough			0.293 (0.42)	0.0551 (0.08)	0.343 (0.47)
Unitary authority or metropolitan district			0.799* (1.69)	0.809* (1.74)	0.896* (1.90)
Respondent is in a finance role			−0.0991 (−0.27)	−0.171 (−0.47)	−0.188 (−0.54)
Elected, Conservative control			0.173 (0.40)	0.189 (0.46)	0.661 (1.62)
Elected, Labour control			−1.083 (−1.64)	−0.807 (−1.31)	−0.783 (−1.27)
Elected, Liberal Democrat control			15.23 (0.02)	14.96 (0.01)	14.72 (0.02)
Elected, no overall control			−1.033 (−1.62)	−1.216* (−1.96)	−0.806 (−1.39)
What financial impact do you think 100% retention will have on your authority in the long term?[a]			1.130*** (4.57)		
How confident do you feel about the sustainability of local government finance?[b]				0.949*** (3.61)	
Difference between revenues and needs per capita, 2016–17					−2.814* (−1.86)
N	155	155	151	151	155

[a] 2 = gain; 1 = stay the same; 0 = lose.
[b] 5 = very confident, …, 1 = not confident at all.
Note: Ordered logit regression. Regressions include constants (not reported). * indicates statistical significance at the 10% level, ** at the 5% level and *** at the 1% level. The numbers in parentheses are t-statistics. A positive coefficient indicates that a variable is associated with a more *positive* view about the incentive effects of a 100% BRRS, and vice versa.

Table A.9. Relationship between (Q9) respondents' views on what is more important in terms of how national policy on business rates retention is set – local areas retaining the proceeds of growth (0) or the ability to provide services under equalisation (1) – and local characteristics

	(1)	(2)	(3)
Under Labour control	1.072** (2.34)	1.267** (2.42)	0.860 (1.17)
Under Liberal Democrat control	n/a (n/a)	n/a (n/a)	n/a (n/a)
No overall control	0.240 (0.48)	−0.179 (−0.30)	−0.574 (−0.84)
County council		n/a (n/a)	n/a (n/a)
London borough		−0.923 (−1.45)	−1.672 (−1.26)
Unitary authority or metropolitan district		−0.266 (−0.59)	−0.397 (−0.31)
Respondent is in a finance role		0.610 (1.17)	0.658 (1.12)
Respondent is in an elected role		n/a (n/a)	n/a (n/a)
Win(+)/loss(−) % from the BRRS between 2013–14 and 2016–17			−1.849 (−0.25)
Annual GVA growth, 2015			4.841 (0.44)
Non-domestic rateable value, 2015–16			−0.00167 (−1.08)
Business rates retention gearing[a]			−0.195 (−0.95)
BRRS baseline funding per capita, 2014–15 (indexed, mean = 100)			−2.076 (−0.88)
Assessed need per capita, 2013–14 (indexed, mean = 100)			9.866** (2.04)
Forecast percentage point change in elderly population (65+) five years ahead, 2016			−31.38 (−0.57)
N	56	50	50

[a] Business rates retention gearing is calculated as a council's initial notional share of business rates revenues at the start of the BRRS in 2013–14 (its 'business rates baseline') divided by its initial assessed need for funding from the BRRS (its initial 'baseline funding'). Because areas where the business rates baseline exceeds baseline funding (i.e. gearing > 1) pay over a fixed amount of their revenues to other authorities (in the form of 'tariffs'), a 1% growth in business rates translates into a more-than-1% increase in the business rates income they actually retain. And vice versa for a council with gearing < 1. Thus gearing can be considered a measure of the relative incentives different councils have to increase their business rates revenues.

Note: Probit regression. Regressions include constants (not reported). * indicates statistical significance at the 10% level, ** at the 5% level and *** at the 1% level. The numbers in parentheses are t-statistics. A positive coefficient indicates that a variable is associated with a *greater* likelihood of expressing a preference that future funding regimes should prioritise incentives and revenue retention over redistribution. Results are not available for the Liberal Democrat variable as there is only a single respondent from a council controlled by the Liberal Democrats who responded to this question. Results are not available for the county council variable as respondents from the six county councils answering this question each answered in the same way (such perfect predictors need to be dropped from probit regressions). Results are not available for the elected role variable as no respondents in an elected role responded to this question.

Appendix B. Survey questions

Q1. How, if at all, has the quality of your frontline services changed over the last year? Deteriorated, Sustained, or Improved? [LGiU *State of Local Government Finance* survey, Q4]

Q2. Is there a danger that financial constraints will put your authority in a position where you no longer have enough funding to fulfil your statutory duties? Yes or no? [LGiU *State of Local Government Finance* survey, Q2]

Q3. Will your 2017–18 budget lead to cuts in frontline services which will be evident to the public? Yes or no? [LGiU *State of Local Government Finance* survey, Q5]

Q4. How confident on a scale from 1 (not at all confident) to 5 (very confident) are you that you will be able to make the necessary financial savings over the next (a) one, (b) three, (c) five years, without seriously impacting the quality of service delivery and outcomes? [PwC *Local State We're In* survey, Q7 (i)–(iii)]

Q5. Is your area one that has seen an increase or reduction in funding as a result of the business rates retention scheme? Or do you consider it not possible to determine this? [PWC *Local State We're In* survey Q57]

Q6. What financial impact do you think 100% business rates retention income will have on your authority in the long-term? We will gain, we will lose, or we will stay the same? [LGiU *State of Local Government Finance* survey, Q18]

Q7. My council is prepared for the shift from grant funding to business rates income. To what extent do you agree with this statement? [1 (Strongly Disagree), ..., 5 (Strongly Agree)]? [PwC *Local State We're In* survey, Q47]

Q8. In your view will 100% business rates retention incentivise local economic growth? Yes, unsure or no? [LGiU *State of Local Government Finance* survey, Q20]

Q9. What is more important to you in terms of how national policy on business rates retention is set – that (a) local areas largely retain the proceeds of local revenue growth even if that means divergences in funding and the ability to provide services or (b) revenues are largely redistributed to ensure that all areas can provide services to their citizens to a reasonable standard even if that blunts the financial incentive to grow local revenues? [PwC *Local State We're In* survey, Q58]

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