**LOCAL GOVERNMENT FINANCE:**
**REVIEW OF GOVERNANCE AND PROCESSES – TERMS OF REFERENCE**

Business rates in England raise £25 billion per year – about 5% of the UK tax-take. Unlike the other main national taxes, they are collected locally and hypothecated to local government. Given their growing importance - as a source of revenue, as a redistributive mechanism across local authorities and as a means of incentivising growth - the system needs to function smoothly, with scope for error minimised.

The department is therefore commissioning an independent review, building on the principles set out in the Macpherson review of 2013, of the internal processes and procedures that underpin its oversight of the business rates system including policy decision-making and analysis and modelling. The review will also make recommendations for improvements. The review may consider:

*Complexity*
- What are the risks and complexities that need to be overseen and managed?
- What arrangements does the department have in place to identify, manage and mitigate these risks and complexities and minimise scope for error in the administration of a complex system?

*Governance and management*
- What are the respective roles of policy advisers and analysts, and are these appropriate, clearly understood and managed?
- What is the process by which changes to data, methods and modelling assumptions are agreed, controlled and quality assured?
- Are there robust scrutiny processes in place, ensuring senior oversight of decisions about methods and calculations?
- What is the annual timetable for decision-making on business rates policy and analysis, and related local government finance issues, and how does the governance of the model support and reflect this?

*Capacity and capability*
- What resources, skills and experience does the department have for its oversight of the business rates and related local government finance systems?

*Openness*
- Are issues elevated within the department with appropriate speed?
- How might more effective use be made of external scrutiny?

***Culture***

- How does the working environment support those working on policy and analysis in raising concerns and taking appropriate action promptly?