



Ministry of Housing,
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Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
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31st May 2019

Dear Sir Amyas,

Local Government Business Rates Pilots: Guidance Error

I am writing to inform you that the Department will be making special payments to a number of local authorities, following a technical error by officials in the guidance note for this year's business rates pilots.

You may recall that in February 2018, the Department discovered an error in the formula that had been used to calculate s.31 grant payments for local authorities in the 2017-18 business rates pilots. Because the error was not discovered until near the end of the financial year, the then Secretary of State chose not to recover the excess amounts, totalling £36 million, that had been paid to certain local authorities.

This year, there has been no mistake in any of the calculations, or any payments, relating to the business rates pilots. However, as last year's error was corrected for, officials failed to update the relevant guidance note. As a result the NNDR1 guidance note for the financial year 2019-20, which was issued to local authorities on 17 December 2018, contained the same error, in the same formula. The correct figures for 2019-20 were issued to pilot local authorities in late April and early May. At this point some councils noticed a discrepancy between these correct figures, and those they had calculated using the guidance note.

The incorrect formula has the impact of exaggerating the forecast benefit of participating in a pilot. Overall, we do not assess that the mistake will have a significant impact on most local authorities. It represents the equivalent of less than 0.2% of core spending power, on average, for those affected. Many local authorities take a cautious approach when planning how to use the extra income arising from participating in a business rates pilot, because

there are inherent uncertainties involved in any forecast of the benefits, and the sums are only finalised at year end when NNDR3 data is available.

However, some local authorities – especially those participating in a pilot for the first time – may have based some element of their budget planning on the incorrect formula. Given that the financial year has already started, and particularly since the error in the guidance repeats the same mistake as last year, the Secretary of State has exceptionally decided to offer a goodwill payment to those councils who used the incorrect guidance for their financial planning in 2019-20, and where the consequences of doing so could be more difficult to mitigate. This will take the form of a special payment. The Department has written to all pilot authorities today asking them to contact us by 21st June if they believe that they meet the criteria which we have set out. I attach a copy of the letter, which sets out the details.

The cost of these payments will depend on how many local authorities are in scope. Our current expectation is that the final sum will be less than £15 million. This will be funded from the Department's small provision for pressures that arise during the normal course of business.

I can also confirm that today, local authorities participating in the pilots will receive the standard first instalment of s.31 grant that they are entitled to for 2019-20. These payments are in line with the correct figures which were notified to local authorities in late April and early May.

Compliance with Managing Public Money

Within the terms of Managing Public Money, the Treasury has approved these amounts as ex gratia special payments. As the Department's Accounting Officer, I am satisfied that they represent value for money, and that local authorities will be spending the money on value-for-money activities in line with their existing duties.

My finance teams have, as you know, already discussed this matter with colleagues at the NAO. Although the special payments will not be paid until 2019-20, we will provide a full update on this issue in our forthcoming accounts for 2018-19.

Future Assurance

Following the mistake in last year's computations, the then Secretary of State and I commissioned an independent review by Andrew Hudson of the internal processes and procedures which underpin the Department's oversight of business rates and related systems. The Department accepted and has since implemented Andrew Hudson's recommendations, which involved new processes, oversight and approvals across our management of local government finance.

It is, therefore, all the more disappointing that the incorrect formula in the guidance note, which originated from the computation error which was discovered last year, was not corrected before that guidance note was reissued in December 2018. We are looking into the precise circumstances of how this happened. However, it originated from a failure to correct the guidance following last year's error, rather than a new mistake in our computations. At this stage, and because of the comprehensive nature of the work that we

have done since Andrew Hudson's report, I do not believe that it indicates further underlying weaknesses to our systems.

However, the Department had already planned a post-implementation review of the work instigated by Andrew Hudson as part of our internal audit plan for 2019-20. In the light of this further error, I have decided to accelerate and widen this work and commission a broader review, for which we intend to appoint external advisors. This is consistent with the guidance in *Managing Public Money* that Departments should "*consider routinely whether particular cases reveal concerns about the soundness of the control systems*".

I am copying this letter to the Chairs of the Public Accounts Committee and the Housing, Communities and Local Government Select Committee. We will keep your successor and both Committees fully updated with our progress on the special payments, and any further steps that we take to avoid a similar mistake in future.

Yours sincerely,

Yours,
Melanie Dawes

MELANIE DAWES CB

Copies to Meg Hillier MP, Chair of the Public Accounts Committee, Clive Betts MP, Chair of the Housing Communities and Local Government Select Committee