Local Government Finance: Review of Governance and Processes

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October 2018

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1. Introduction

1.1. I began work on local government finance, in the Treasury, in 1989. We were preparing for a major reform of the system, which took effect in April 1990. The most notable aspect was the replacement of domestic rates by the poll tax (officially named the community charge), but this was part of a much wider set of changes.

1.2. The poll tax was short-lived, replaced by council tax in 1993. But the reforms to non-domestic rates (usually known as business rates) proved much more enduring. Before 1990, local authorities set their own business rates, and kept the proceeds. From that year, there was a single National Non-Domestic Rate (NNDR): local authorities collected the money, and paid it into a national pool, which was distributed back to councils as an equal amount per head of population.

1.3. This system was not only remarkably simple, but proved remarkably stable: it remained completely unchanged until 2006-7. From then until 2012-13, the distribution of business rates income simply followed the allocation of formula grant. By 2012-13, over £25 billion was redistributed in this way.

1.4. Over recent years, however, the system has become much more complex, which creates challenges both for local authorities and for the Ministry of Housing, Communities and Local Government (MHCLG), which has overall responsibility for the business rates system. Recognising this, the former Secretary of State, Rt Hon Sajid Javid MP, commissioned an independent review of the internal processes and procedures that underpin the department's oversight of business rates and related systems. This followed the discovery that a total of £36 million had been paid in error to 27 local authorities and the Greater London Authority in 2017-18, but also reflected a wider recognition of the importance of the business rates retention system to the sustainability of local government. I was asked to lead this review, and the terms of reference are set out on the next page.

1.5. I am very grateful to my colleagues on the review team – Suzie Clarke, Loy Chen, and Jonathan Denning from the department, and Neil Smith as an independent member – and to everyone we met in the course of the work (see Annex A).

ANDREW HUDSON

October 2018

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?

2. Summary

2.1 **The business rates system has become much more complex over the last 5 years.** Local authorities have been allowed to retain some of the proceeds of business rate growth, to encourage localism and incentivise economic development. Reductions in revenue support grant also mean that the distribution of business rates to councils bears some of the weight of balancing local needs and resources. Business rate reliefs have also been given to support economic policy objectives and offset pressures. And there have been increasing numbers of bespoke arrangements for groups of authorities in pools, and for authorities piloting 100% rates retention.

2.2 **This has created pressures on the administration of the system**. As an illustration, the number of variables needed to calculate the local government finance settlement rose from 78 for 2017-18 to 146 for 2018-19.

2.3 **This greater complexity comes at a time when resources have been reduced in MHCLG, in local authorities, and in the bodies which represent councils.**

2.4 **The timetable for the work has become tighter.** At the centre, this partly reflects the fact that some relevant decisions are taken as part of autumn fiscal events. Since 2013, the announcement of the final settlement has come in the first week of February at the earliest, compared to the last week of January in the preceding years. Later decisions and announcements put pressure on staff in central government, local authorities, and software suppliers.

2.5 **There are further changes to come.** The settlement for 2020-21 will need to take account of the outcome of the Fair Funding Review and of the 2019 Spending Review, implement changes to business rates retention, including the future of Business Rate Retention Pilots. The department therefore faces a significant delivery challenge, alongside a policy implementation exercise.

2.6 **Processes can be strengthened.** The department and local authorities have managed the growth in complexity with commendably few errors, but within the department, this has relied very heavily on the efforts of individual members of staff, rather than on established structures and processes.

2.7 **Governance has been strengthened over the past year but this needs to go further.** Formal governance arrangements are in place for much of the work but are not yet fully embedded in the department and with partners.

2.8 **Many of the processes are quite open,** through e.g. joint working groups with the Local Government Association, but a more structured approach to external scrutiny will be beneficial.

2.9 **I am making the following main recommendations:**

- The department should take very careful account of the risks of adding to the complexity of the system, particularly before 2020.
- There should be a clear timetable agreed in advance with all relevant departments across central government for all the decisions required for the local government settlement.
- The final settlement should be announced no later than 31 January, and the provisional settlement around 5 December.
- The deliverability of policy changes should form an integral part of the advice to ministers.
- The department should implement and embed a more comprehensive governance structure to cover all its work to deliver the new system in 2020.
- The Senior Responsible Owner should be at least at Director level and should remain in post for the lifecycle of the programme. He or she should be supported by a portfolio manager with appropriate skills.
- There should be in place sufficient internal documentation to enable new and existing team members to understand more quickly how the business rates retention process works, and how different parts interact. This should also record changes as they are made, in line with the governance protocols.
- There should be a quality management strategy, providing a clear and documented approach to the work as a whole, covering quality control, assurance and governance.
- The department should produce a staffing plan for the programme, to ensure that the appropriate skills are in place, and to strengthen stability and reduce key person risk.
- The department should look at ways of improving communication and accessibility of the settlement to local authorities.

- Peer challenge and external scrutiny should play bigger roles, with a view to designing quality into the system, rather than for late-stage checking.

- Senior managers must play a key role in embedding new ways of working.

3. Background

3.1 The business rates system has become much more complex over the last 5 years.

3.2 Changes have been made for a number of reasons:

a. As part of wider economic policy, there was a desire to incentivise local government to do more to foster economic growth within their areas. This pointed to localising some of the business rates yield, so that local services benefited from growth.
b. Within local government policy, there was an aim of making local government more independent of central government. This also pointed towards localisation.
c. Fiscal policy led to a reduction in resources for local government. As this went on, it became impossible to use the shrinking level of revenue support grant to offset the differences in needs and council tax resources between authorities, so the distribution of business rates income took up some of the strain.

3.3 Ministers have also used business rates to support objectives for particular sectors. Sometimes this has arisen from other developments in rating, e.g. offsetting the impact of the 2017 revaluation on pubs. But in other cases, such as the creation of Enterprise Zones in 2012 and the under-indexation of the business rates multiplier announced in autumn 2013, the driver has been wider economic policy, which was previously delivered through changes to corporation tax or income tax.

3.4 Given the parallel objective of requiring local authorities to rely more heavily on business rates income, Ministers have chosen to fund these wider changes centrally. Until around 2013, this would have been fairly simple, as grant would have been adjusted, but the changes above mean that the process is now much more complicated.

3.5 All these changes have come at a time when MHCLG, local authorities, and the bodies which represent local government have all seen cuts in resources. The total number of staff in post in the department fell from 1,822 in April 2012 to 1,375 in June 2017 before picking up to 1,739 in May 2018. Over the same periods, the number working on the local government finance system has also changed over the same period from 115 full-time equivalent staff at the end of March 2012 to just under 100 in August 2018. Local government's overall spending power fell by 29 per cent between 2010-11 and 2017-18 in real terms, based on calculations by the National Audit Office[1], and this has been reflected in a fall in local authority staffing, and in the budgets of representative bodies such as the Local Government Association, for example.

Table 1: Local Government Finance System – Key Information

£45 billion	Amount of money distributed to local authorities via the 2018/19 local government finance settlement
£25 billion	Amount of non-domestic rating income local authorities expect to collect after all reliefs, accounting adjustments and sums retained outside the rates retention scheme
£4 billion	Amount of business rates reliefs local authorities estimate to provide in 2018-19
16	Total number of business rates retention pilots, involving 150 local authorities and the Greater London Authority.
31	Total number of business rates pools in 2018-19, involving 268 local authorities.
385	Number of local authorities whose resource allocation is determined in the annual settlement
146	Number of variables used in 2018-19 settlement to determine distribution to local authorities. This was 78 in 2017-18.
100	Number of calculations in the 2018-19 settlement: each must be manually checked. This was 44 in 2017-18.
41,000	Numbers produced for all local authorities in the Key Information tables in 2018-19.
23	Number of separate pieces of secondary legislation in the last five years to implement changes to business rates. There was also a new Act of Parliament to provide relief for broadband telecommunications infrastructure.

[1] https://www.nao.org.uk/wp-content/uploads/2018/03/Financial-sustainabilty-of-local-authorites-2018.pdf

4. Complexity

Terms of reference

- 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?

Findings

Scale of the challenge

4.1 Everybody we spoke to confirmed the view that the system is indeed complex, and that this complexity has grown relatively quickly with successive changes to the operation of the tax. The facts bear out this perception.

4.2 The Local Government Finance system consists of several interdependent processes. These include the operation of the tax, the business rates retention system, and distribution of resource through the annual settlement. The introduction of business rates retention – by which local government retains a proportion of locally collected business rates, and income is redistributed between authorities - mean the current system of funding local government is inextricably linked to decisions taken on business rates as a tax, as well as other aspects of local government finance policy. These decisions – such as changes to business rates reliefs or the introduction of new pilots – must be incorporated into arrangements for the settlement. Some will also require amendments to legislation.

4.3 There are several bodies involved in the overall management of business rates as a tax. The Treasury and MHCLG jointly set the overall policy, the Treasury is responsible for funding decisions, MHCLG has legislative responsibility for the business rates system, and the Valuation Office Agency (VOA) is responsible for calculating properties' rateable values and holds much of the data on the system. In practice the departments and the VOA work together collaboratively to ensure the business rates system operates effectively. Local authorities are responsible for issuing bills and collecting payment.

4.4 The methodology that underpins the distribution of funds to individual authorities is set out in the Local Government Finance Report (LGFR). The LGFR is published in draft alongside the provisional settlement and then as part of the final settlement. It provides the information that an authority needs to calculate their Revenue Support Grant, Baseline Funding Level, and tariff or top-up (a feature of the redistribution system) for the coming financial year. For 2017-18 the LGFR contained 78 variables needed to calculate the settlement outcomes for local authorities. These include components such as an authority's income from business rates, council tax requirements, section 31 grants, and inflation figures.

4.5 For 2018-19, the number of variables had increased to 146. This was in part due to an expanded programme of business rate retention pilots. In addition, there needed to be adjustments to take account of the impact of the 2017 business rates revaluation. While a business rate revaluation must be revenue neutral overall, there will be some change in the relative distribution of rateable values, and therefore the business rates income of individual local authorities. To manage this and ensure that authorities' retained income is unchanged by revaluation, the tariff or top-up must be adjusted for each authority.

4.6 The funding of local government has always been complex – there are close to 400 local authorities, with different responsibilities, different needs, and varying scope for raising revenue. The work is done in a political environment: the distribution of resources has always provoked lively political debate, with a vote on the final settlement in the House of Commons. But the rapid increase in complexity in business rates, for all concerned, has been exceptional. And this complexity could easily grow further if there is more focus on rates as part of business tax policy and hence wider economic policy at the same time as reductions in grant continue to increase local government's overall dependency on business rates.

4.7 We have brought together the work the department has to do to make the settlement happen in the process map in Annex B.

4.8 Annex C lists the changes affecting business rates since 2013. Taken together, these changes mean that as well as a policy exercise, the preparation and implementation of the annual local government finance settlement needs to be approached as a major delivery exercise, and planned accordingly.

Current reforms

4.9 In parallel with reviewing Business Rates Retention, the department is examining the distribution of resources through the Fair Funding Review, which will set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources, using the best available evidence. The department is aiming to implement the Fair Funding Review from the spring of 2020, and any changes which result will be of central importance to local authorities.

4.10 2019 also sees the next Spending Review, which will look at the overall resources available for all departments. This will impact both on local government directly, and via any related decisions on, for example, social care.

4.11 The department therefore faces a huge challenge in bringing these three sets of changes together in preparing the 2020 settlement. And by the time the settlement goes live, the Valuation Office Agency will be well advanced with the preparations for the next full revaluation in 2021.

Timetable

4.12 The task of managing the greater complexity has been made more challenging, both for the department and for local authorities, because announcements have been made at an increasingly late stage in the annual cycle.

4.13 Local authorities have statutory deadlines for setting their budgets: 1 March for precepting authorities, 11 March for billing authorities. This means that proposed budgets will need to be considered by a council's executive and Full Council during February. Most authorities will have considered a provisional budget in the autumn, followed by a period of public consultation including on any proposals for savings.

4.14 Although there is a typical annual cycle, there are no statutory deadlines for the central government process; decisions on local government finance involve several departments. The provisional settlement date has been later in recent years: since the 2012 announcement for 2013-14, the provisional settlement has been announced between 15 and 19 December, compared to late November or very early December in the 2000s, with the final settlement in the first week of February rather than the last week of January (see Annex D). The technical consultation on the settlement, which is an opportunity for local authorities to consider the department's proposed approach, is typically published in July but for 2017-18 and 2018-19 it did not come out until September.

4.15 This all allows less time for scrutiny, and less time for local authorities to set budgets. In some cases, councils have even had to set their final budgets for the year based on the provisional settlement. While this is legal, it does not suggest a robust system. Generally local authorities are frustrated both by the late announcement of the figures, and also by the fact that they often get no notice of when that announcement is coming.

4.16 We were struck by the contrast with the schools funding system, where local authorities are provided with firm, per pupil figures in July from which they can calculate the funding they will receive for the following year. In addition, for 16 to 19 funding allocations, the Department for Education publishes, and updates, an annual timeline of key dates and provides advance information on the funding rates that will apply.

4.17 One reason for the later announcement of the settlement is that relevant changes have sometimes been announced in fiscal events in the autumn. That could well continue, given that the Chancellor has decided to present his annual Budget in the autumn. The later policy decisions are taken, the greater the risk that there will be difficulties in implementing changes.

4.18 Later announcements also compress the timetable for the department, meaning that more has to be done over a shorter period. For example, the same group of staff will be responsible for making arrangements for business rates retention pilots as well as considering whether and how NNDR forms need to be amended to take account of changes to business rates as a tax. The latter must be done in time to allow for statutory deadlines for data collection from local authorities.

Managing complexity and risk

4.19 The combination of complexity and a tight timetable has raised the risks for the department. These risks include later delivery of the figures, and making an overpayment or underpayment to local authorities, with knock-on consequences for service delivery, and for reputational risk to the department.

4.20 Complexity, along with tighter timescales and lower resources, has also impacted on the scope for effective external challenge, and the ability for many individual authorities to understand fully how the system affects them. A few years ago, when the complexities in the finance system were overwhelmingly on the grant side, a high proportion of local authorities had staff in-house who understood the intricacies well, and were able to predict the likely outcome of annual changes for their authority, and to understand the details of the actual position once announced, both for their own council and more widely. We heard that councils these days are more reliant on umbrella bodies and a small number of specialists. This reduces the overall transparency of the system and increases the chances of error.

4.21 Overall, we found that the department had responded well to the challenges of the last five years. Our review was prompted specifically by the discovery of an historic error leading to an overpayment, and *we* also know of examples where NNDR forms had to be withdrawn and replaced. But the changes themselves, and several years' settlements along the way, have been delivered with few difficulties on the surface.

4.22 That success, however, has relied very heavily on the efforts of the people in the teams, rather than on established structures and processes.

4.23 The rapidly growing complexity has led to an increased dependency on a relatively small number of long-serving subject experts, who are recognised as such both inside and outside the department. While teams have been reinforced in the last couple of years, there is not yet a good, shared understanding of the system as a whole. This is not necessarily unusual for complex systems, but does build risk and vulnerability.

4.24 The department's operation of the business rates system relies heavily on spreadsheets. This has pros and cons: it is relatively flexible in a fast-changing world, but has been highlighted by staff and observers as something which may make the system more vulnerable to error. This could arise, for example, in the calculation of local authority payments. The analytical division is increasingly using statistical packages such as STATA for general modelling and analysis, including the independent production of spreadsheet outputs. For data collection, the department is moving to new software (DELTA) which could reduce risks, for example, by having automatic version control. The department is investigating whether the NNDR data collection process could become more efficient and robust by moving to the DELTA platform.

4.25 While the department has demonstrated significant flexibility and agility in delivering policy changes, this has not been matched by the creation of documentation to support the management of the system and to build resilience. There is inconsistency in the logging of changes, and some key processes have not been documented or mapped, though progress has been made more recently.

4.26 The overall approach to business rates changes contrasts, understandably, with departments which have worked on complex delivery tasks for longer. For example, HMRC have an established way of working with the Treasury on changes to tax policy. The government committed itself in 2010 to create a more predictable, stable and simple tax system, in the document "Tax policy making: a new approach", and this commitment was taken forward in the policy paper "The new Budget timetable and the tax policy making process" (HM Treasury, December 2017[2]). This document points to making more time available to scrutinise draft tax legislation, and more opportunities to consult with stakeholders at an earlier stage. The latest guidance says that "most policies will be announced at least 16 months before they come into effect at the start of the next tax year", though it notes that this will not always be possible, and that there will not generally be consultation on more straightforward changes.

Recommendations

4.27 How to manage complexity and the associated risks is at the heart of this review, and many of the recommendations in the sections on Governance and Capacity also address the point.

Recommendation one: The department should take very careful account of the risks of adding to the complexity of the system, particularly before 2020.

4.28 As well as finding better ways of managing complexity, there is a prior question as to whether the complexity of the system could be reduced, so as to increase transparency and reduce risk. We believe that the department should certainly do all it can to avoid adding to the complexity before 2020, for example, keeping an eye on the cumulative impact of bespoke arrangements within the system. However, we recognise that the department will always need to be ready to respond to urgent requests or changes in circumstance: it should work towards a simpler system, but be ready to handle any extra complications. This may have implications for both the resources required and the lockdown period (see paragraph 4.33).

Recommendation two: There should be a clear timetable agreed in advance across central government for all the decisions required for the local government settlement.

4.29 Risks would be reduced if there was a clearer timetable for decisions throughout the year, leading up to the publication of the provisional and final settlements. This timetable should be established and agreed more clearly in advance with all relevant departments across central government, and should allow enough time for all the stages of the work.

4.30 This approach would be of benefit within central government, and also to local authorities trying to set their budgets. There will inevitably be uncertainties, but

[2] https://www.gov.uk/government/publications/the-new-budget-timetable-and-the-tax-policy-making-process/the-new-budget-timetable-and-the-tax-policy-making-process).

these can be better managed in the context of an agreed plan. Decision making on changes announced in fiscal events has been formalised and brought forward by the need for costings to be confirmed by the Office for Budget Responsibility (OBR), and this sort of approach would be valuable for the local government settlement decisions, whether or not these involve the OBR or not.

Recommendation three: The final settlement should be announced no later than 31 January, and the provisional settlement around 5 December.

4.31 The detailed planning for the timetable should work back from the statutory deadline for local authorities to set their budgets. This points to the final settlement being as early as practicable and no later than 31 January, with the provisional settlement around 5 December, allowing up to 6 weeks consultation either side of Christmas to allow time to analyse responses.

Recommendation four: Quality control measures should be built into the process at all stages.

4.32 Quality control measures should be built into the process at all stages. So if, for example, new guidance notes are prepared for a form, these should be checked with local government representatives well ahead of the issue of the form. This will contribute to getting each stage right first time, and reduce the pressure on the end-game. The section on Openness gives more detail on how the department might make more systematic use of external scrutiny.

Recommendation five: There should be a lockdown period built into this timetable to allow for quality control work.

4.33 It remains vital to build a lockdown period into the final stage of the settlement timetable to protect the time needed to undertake sufficient quality control. Within current arrangements, this should be at least one week for the provisional settlement, as well an appropriate lockdown to incorporate changes for the final settlement. However, this is dependent on the complexity of the proposed changes, in addition to the wider demands on analysts across the rest of the system. For the new schools funding formula, there is a lockdown period of 4 weeks, and there is a strong case for building in more than one week for the first settlement after the Fair Funding Review. Large and complex structural changes should have a lockdown of at least 2 weeks.

Recommendation six: The department should continue to investigate and invest in the best use of software for data collection and analysis to support the operation and maintenance of the wider local government finance system.

4.34 This is particularly urgent where use of Excel is leading to risks. However, it is important to avoid unnecessary risks of a different sort, by ensuring that the implementation of any new software is appropriately tested well ahead of the delivery of the 2020-21 settlement.

Recommendation seven: The deliverability of policy changes should form an integral part of the advice to ministers.

4.35 The deliverability of policy changes, such as the introduction of a new relief, should form a clear part of advice to Ministers and discussions with other parts of government on policy changes. We understand that this is core business for HMRC and the Treasury in working up changes to HMRC taxes. More generally, we recommend that changes to business rates as a tax should be worked up, as far as possible, using a similar approach as applies to the HMRC taxes in the run-up to the Chancellor's annual budget in the autumn. In principle, the same should apply to council tax, though this is not something the review has examined. This approach clearly needs to respect the fact that the Secretary of State for Housing, Communities and Local Government has ministerial responsibility for council tax and shared responsibility for business rates, and that local authorities will be responsible for implementing the policy changes.

4.36 In planning the timetable, officials should advise Ministers directly on the risks of late decisions. Mitigations include early sight of possible changes so that all parties can make contingency plans, or implementing changes a year later, as sometimes happens for other taxes.

Recommendation eight: The department should keep in mind the possibility of more radical steps to reduce risk.

4.37 There are a number of different possibilities, though this review has not had the time to explore these in detail.

4.38 Some people have raised the question of whether the settlement could be announced significantly earlier in the year, with the provisional settlement e.g. in October, and the final one before Christmas. This might be possible in years when there is no spending review, so the quantum of support for local authorities is fixed, and the department is implementing the next stage of a multi-year settlement. Announcements on resources are sometimes made outside the context of fiscal events, though these do have some downsides.

4.39 Local authorities have raised the possibility that more of the adjustments and compensations for changes could be made a year in arrears, i.e. the 2019-20 settlement could be based on information available in, say, October 2018, with adjustments for later decisions or data made in the following financial year.

4.40 As part of the move to full business rates retention, the Government was planning legislation to remove the need for a Commons vote on the settlement every year, in the Local Government Finance Bill which fell as a result of the 2017 General Election. This measure would simplify the final stages of the settlement process, particularly where there are multi-year settlements.

4.41 All of these steps would require careful consideration.

5. Governance and Management

Terms of reference

- 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?

Findings

5.1 This section looks first at the governance and management issues more generally, and then at the specific questions in the terms of reference, apart from timetable issues which are covered in the section on complexity.

Formal Governace

5.2 Our overall view is that there are formal governance arrangements in place for many aspects of the local government finance work, and that these have been strengthened over the past year, but that work is still needed to embed them sufficiently in the bloodstream of this part of the department. This is not surprising, given that the work of the Local Government Finance directorate has traditionally been mostly on policy. The delivery task has only become complex in the last few years.

5.3 The diagrams in Figure 2 set out the current groups and relationships. Several of the component groups have been introduced in the last year and additional steps have been taken since March, including the establishment of the Business Rates Retention Operating Board.

Figure 2(a): Current Local Government Finance Governance Structures

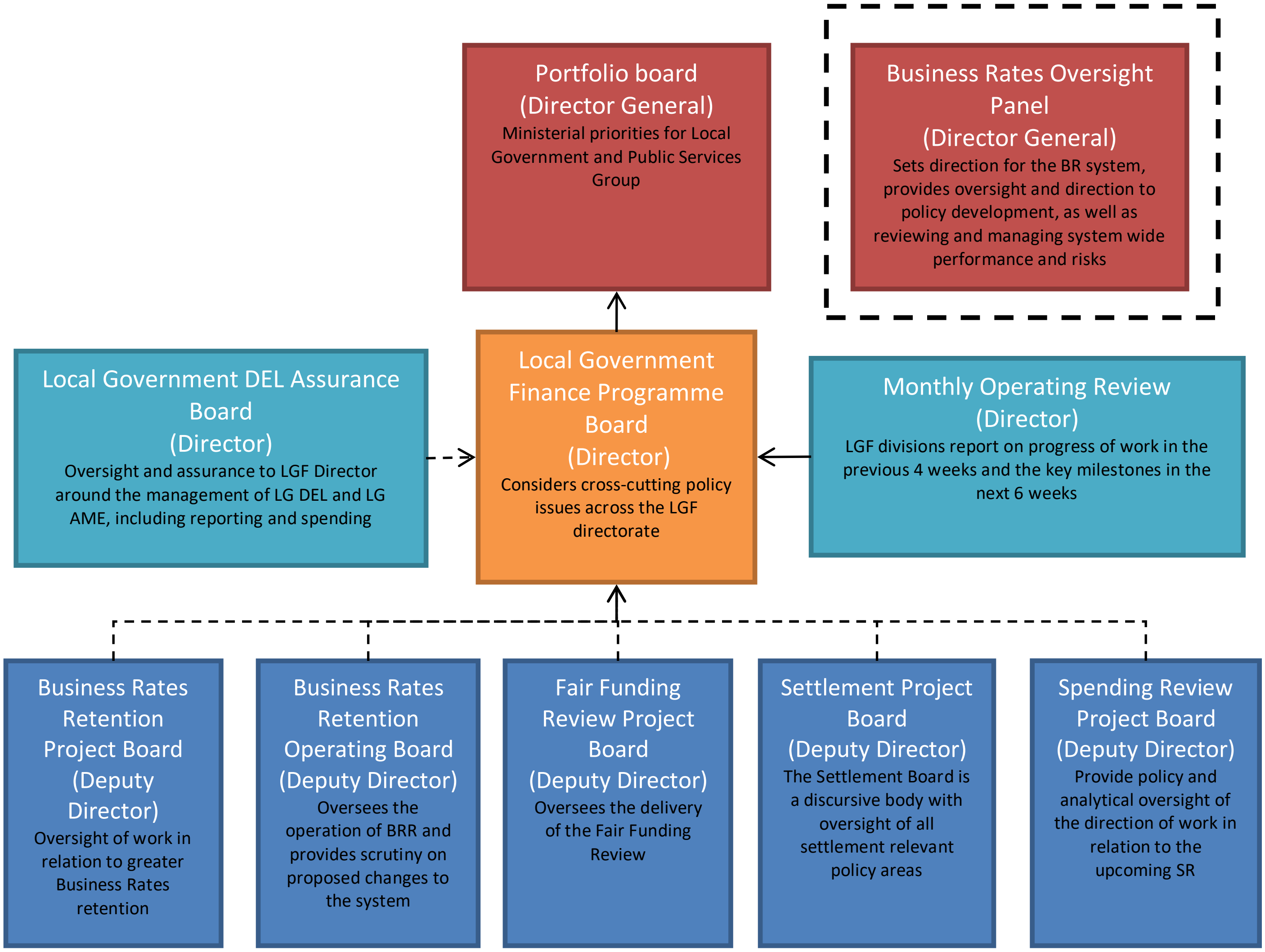
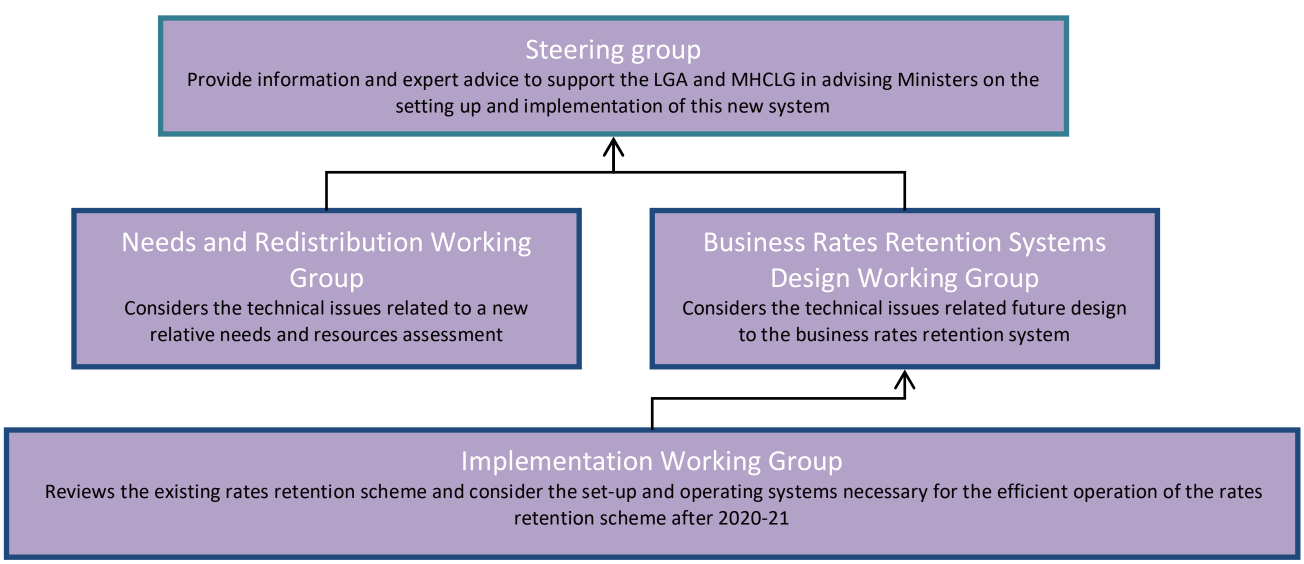


Figure 2(b): Joint LGA & MHCLG Governance Structures



5.4 Although the framework is developing, it is clear that, compared to some other departments with longer experience of delivering complex packages of measures, formal governance disciplines are not central to the way that work is delivered across the piece, particularly for urgent work. This applies to both process and culture – the Macpherson Review of Quality assurance of Government models identified these are twin dimensions of successful quality assurance, and this principle applies more widely too. For example, the findings on culture are important for policy development as well as analysis.

Managing process

5.5 In terms of process, some of the ways of doing business have relied on informal working arrangements rather than written procedures. This applies, for example, to the answers to specific questions from local authorities about how to treat particular types of property in filling in a box on a form: rather than capturing these systematically and turning them into a set of Frequently Asked Questions, the knowledge has until recently been held informally. Generally, there is less documentation than would be expected for a system of this complexity and importance. Work has been under way on a Business Rates Operating Manual since June 2017, but other pressures on scarce resources mean that it remains unfinished.

5.6 This is also an example of how strong and formal governance disciplines are not central to the working culture in this part of the department. There certainly has been plenty of pressure on a few key individuals, over years rather than months, but the department has not prioritised the task of systematising their knowledge, so as to reduce the risk if they were to leave or fall ill. More recently this problem has been addressed via reinforcement of some key areas of work, but the complexity of the process and the significant time needed to understand it fully underline the need for good knowledge management.

5.7 In talking to several other departments and organisations outside government, it was clear that the governance structure, and supporting processes and systems, were at the centre of the way business was done. Top management were fully bought into the disciplines it brought. Even when change came at short notice, e.g. because of a court case, the work was progressed through the established change control mechanisms, with the governance procedures used to ensure that all relevant parties were aware of developments and all interactions and implications were identified. Our impression, at least, is that a similar change would be handled much more informally in MHCLG.

Respective roles of policy advisers and analysts

5.8 The working relationships between policy advisers and analysts appear effective and there is a high level of collaboration between the two. The Local Government Finance Directorate consists of five policy divisions and is supported by two analytical divisions which belong to the Analysis and Data Directorate. One of these provides policy analysis and the other is responsible for data collection and statistics. In 2015 the department re-structured from an embedded model, where analysts and policy advisors were in the same team, to a co-located model, so that Local Government Finance Directorate policy staff sit close to policy analysts who are now part of a separate central analytical team. Whilst there are differing views on the most effective policy-analyst model, there is a general consensus that the re-structure has allowed analytical teams to benefit from sharing skills and expertise within teams.

5.9 The emerging governance structures allow policy staff and analysts to share information and concerns. As emerges more widely, however, in some instances policy development is heavily dependent on informal relationships between key policy advisers and analysts, rather than a structured approach to involving analysts at the start of the policy process. The benefits of further involvement of analysts have been noted by external stakeholders. It would also help to build the formal assurance processes which are needed in a system as complex as the business rates system, and would provide additional scrutiny to policy decision-making.

Delivery

5.10 A further advantage of stronger governance should be to focus attention earlier and in more detail on the deliverability of a policy change, and make recommendations accordingly. This dimension should be addressed whether changes are planned in advance or come up at short notice.

5.11 The local government finance payments system provides one example of good practice which could be extended across the wider directorate. The payments team has developed a statement of responsibility, which provides a clear list of who - across analysts, policy officials, or the payments team - is responsible for doing what and at which stage, in the lead up to payments leaving the department. This has helped to reduce confusion over responsibility, with the aim of minimising the scope for error.

Assurance and scrutiny

5.12 The process for checking and assurance has evolved over recent years.

5.13 The department considered the recommendations which emerged from the Macpherson report soon after it was published. There was activity to look at quality assurance strategy for Local Policy Analysis again in 2016 and most of the actions identified then have been completed. There is clear evidence of quality assurance processes and procedures being a core part of the way the analytical team operates (particularly when using key analytical or calculation models) and activity designed to drive improvement. For example, there is a divisional quality assurance rota to ensure that two analysts are always on duty to provide any quality control work unexpectedly needed at short notice. Business-critical models and outputs are also constructed independently through 'double-running' as a further assurance process.

5.14 The thinking behind the Macpherson report should not only apply to key analytical models but also the wider policy development process. There is much less evidence that Macpherson principles have been fully embedded into the way the business rates and the retention system is managed as a whole. This applies to system maintenance and policy development, as well as ad hoc calculations often done in policy teams to support that policy development. For example, there is lack of documentation, included where recommended by internal audit.

5.15 Scrutiny processes have improved over the last couple of years, with more people involved in working up methodologies and checking calculations, though many of these arrangements remain informal.

5.16 Senior oversight comes from the sign-off of the settlement by the Deputy Director responsible, based on internal assurances on policy and analysis including that policy decisions are reflected in final calculations and that appropriate quality assurance has been applied. Discussions at the Settlement Project Board are a key mechanism for providing the necessary assurance.

5.17 In hierarchical terms, this sign-off comes at a lower level than in some other departments – chapters in the Treasury's Red Book, which documents the Budget, are signed off by directors.

Recommendations

5.18 Putting governance more at the centre of the way work is done will involve changing both process and culture. The two should be mutually reinforcing:

without specific new processes, talk of culture change may not get beyond talk; without a clear lead from the top about culture change, new processes risk being marginalised.

Recommendation nine: The department should implement and embed a more comprehensive governance structure to cover all its work to deliver the new system in 2020.

5.19 An internal review of governance is under way, which will help to firm up future arrangements. These need to be proportionate to the task - we are not building a new airport - and care should be taken to integrate the governance tasks with the main lines of work, so that these become “the way we do things” rather than a bolt-on for compliance purposes.

Recommendation ten: The Programme Board should be the focal point for all the work to deliver the changes to the local government finance system for 2020.

Recommendation eleven: The Senior Responsible Owner (SRO) should be at least at Director level and should remain in post for the lifecycle of the programme. He or she should be supported by a portfolio manager with appropriate skills.

5.20 The Programme Board board will need to have clear links to all the relevant workstreams and projects. The SRO for this work should at least be Director-level and should remain in post for the lifecycle of the programme. The independent responsibility that goes with the SRO role should be made clear to all.

5.21 Although MHCLG will be in the lead, it will be important that this is a government-wide effort. Treasury officials should therefore attend such a board on a regular basis. Part of the job of the programme manager will be to ensure that the department engages external stakeholder, including local government, appropriately.

5.22 There should be a new Local Government Finance Portfolio Manager and team to support the SRO in establishing new arrangements, helping to embed them into ways of working across Local Government Finance Directorate and Analysis and Data Directorate and to provide strategic oversight of policy and operation across the programme. The post holder should have a track record of successful Programme and Project Management (PPM) experience and quality management systems, and should be at least team leader level. They should ensure that the programme is delivered according to established best practice - the department has produced guidance on setting up and managing projects.

5.23 **Recommendation twelve: The strengthened governance framework should include more formal arrangements for managing a number of dimensions of the work, including change, risk, knowledge, and quality.**

5.24 Part of the governance apparatus will be a clear, effective and proportionate change management process, with the expectation that the process must be followed including where changes must be undertaken quickly. There should be separate processes for changes of different scale – e.g. minor, substantive and significant – with appropriate sign off requirements for each. Significant changes should be treated as 'projects' employing appropriate PPM techniques and structures: these might include Business Rates Retention, Fair Funding Review, and any consideration of new reliefs.

5.25 The department could learn from arrangements in similar organisations in firming up the governance procedures: some elements worth considering include adopting project arrangements for changes to systems, or establishing technical decision panels or star chambers with representatives from key teams in Local Government Finance and Analysis and Data Directorates, as well as someone to provide an internal peer review. This could help ensure that the right people are consulted, that there is opportunity for peer review and that changes are clearly documented.

Recommendation thirteen: Clarity over roles and responsibilities should be improved, supported by greater training to improve mutual understanding.

5.26 Within the change management process, there should be greater clarity on the respective roles of all parties, facilitating close and effective working between teams. Analysts should have a central role in discussions and decisions on appropriate methodology from an early stage in policy development. There could be a formal statement of responsibilities, using the example that already exists and has been developed by the Payments Team.

Recommendation fourteen: All analysis and methodology should have documented sign off from whoever the SRO determines as appropriate.

Recommendation fifteen*:* There should be in place sufficient internal documentation to enable new and existing team members to understand more quickly how the business rates retention process works, and how different parts interact. This should also record changes as they are made, in line with the governance protocols.

5.27 The Business Rates Retention operating manual should be completed by October 2018. The QA process should include a review by external experts. Given the complexity of the process, it may be quicker and more effective to involve an external technical writing team to complete the work.

5.28 There should also be an operating manual for the settlement process for internal audiences. Both operating manuals should develop as changes are made to the calculation processes, and should be more formally reviewed annually to ensure overall coherence.

5.29 Once ‘manuals’ are in place for internal use, the department should consider what can be made available for external audiences and placed on the Gov.uk website.

Recommendation sixteen: There should be a quality management strategy, providing a clear and documented approach to the work as a whole, covering quality control, assurance and governance.

5.30 This strategy should set out how the department plans to ensure high quality in each part of the local government finance process. Progress against these standards can be managed through internal governance and external quality assurance work.

5.31 Some aspects of this process could benefit from co-operation between departments. There could be greater use of peer review and mutual learning, either covering the strategy as a whole, or particular dimensions of quality management.

Recommendation seventeen: To improve the policy-analyst relationship further, modelling and analysis should be more central to the way the system is run.

5.32 Analysts at the appropriate level should sit on all governance boards. A named analyst should be appointed for each policy development activity, and involved at all key stages.

Recommendation eighteen: The department should consider different approaches to auditing and assuring its own systems. In all cases, there should be a clear and rigorous internal process for tracking progress on Audit recommendations.

5.33 There are a number of ways of assuring systems, some formal, some informal. One important dimension in all cases is to ensure that agreed recommendations are implemented. Effective work by audit teams, particularly internal audit, can provide added assurance on whether changes are being followed through. There should be a clear and rigorous internal process for tracking progress on audit recommendations that links to the governance framework.

6. Capacity and capability

Terms of reference

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

Findings

6.1 The department's oversight of the business rates system is led by the Local Government Finance Directorate, who are responsible for overall management of the system and related policy, and a team within the Analysis and Data Directorate who lead on analysis and modelling.

6.2 There have been changes in the size and shape of both directorates since the business rates retention system was first designed in 2011/12, so it is not possible to make precise comparisons over time. Around 115 staff were working on local government finance in 2012. The total now is just under 100. Within that, the number of policy staff working on the business rates system has not changed significantly, though there are fewer policy staff in other parts of the directorate. There has actually been an increase in the level of analytical resource available to support the system, from about 16 staff in 2012, to around 20 now. Both directorates have some very skilled and experienced people working on the system, and there is a high level of personal commitment. This has certainly helped ensure that the system has run as smoothly as it has since 2013.

6.3 However, as this report makes clear, the scale of the task of running business rates has grown and changed since 2013, and so pressure on resource feels greater.

6.4 The two directorates are strong in their technical and policy expertise. There are also a few staff with experience of working in local government. However, perhaps in common with the department as a whole, there is less delivery or operational experience of the type necessary to manage and maintain a complex system with confidence, and the same applies to managing tax changes.

6.5 In spite of the significant dependency on a small set of subject experts, succession planning for key posts has proved difficult. In August 2018, the Local Government Finance Directorate currently had a vacancy rate of around 18.5% - which at that point was higher than the departmental average of 14% - though we understand that the Directorate has recruited to fill many of these vacancies in recent months.

We understand that newer or more junior members of LGF often move on quickly, impacting on overall resilience. There should be systematic arrangements in place - within Local Government Finance Directorate or across the department as whole - to bring people into the work from elsewhere in the department to help respond to peaks of pressure.

Recommendations

Recommendation nineteen: The department should produce a staffing plan for the programme, to ensure that the appropriate skills are in place, and to strengthen stability and reduce key person risk. This is likely to require a few extra posts in the directorates.

6.6 As part of the 2020 Programme, the department should undertake a skills audit / capacity review, and develop a staffing plan. Generally, the department should give a high priority to filling vacancies in Local Government Finance Directorate, combining internal moves and external recruitment. There needs to be careful planning for key person risk, and succession planning designed to provide a high level of stability in key teams in the build up to the launch of the new system in 2020.

6.7 Until the review of skills and capacity has been conducted in detail, it is hard to judge how far the staffing of the directorates should be increased to meet the extra challenges with an acceptable degree of risk. Our sense is that a small number of extra posts at around team leader level, in addition to the new programme management resource (5.22) would make the directorates significantly more resilient.

Recommendation twenty: In addition to the portfolio manager, staff with experience of tax policy and of operations, perhaps in local government, would add to the skill set.

6.8 The department should make a specific effort to recruit new joiners who will increase Local Government Finance Directorate’s operational and delivery capacity. The department should also look to strengthen its capacity to oversee the operation of business rates as a tax. As a minimum, this should include a specific programme of learning from HMRC, but should be supported where possible by use of secondments and/or recruitment from the VOA and HMRC. To boost other skills, there should also be a programme of secondments to and from the Treasury and local government.

Recommendation twenty-one: Identify suitably skilled individuals within the department who could be called upon to reinforce Local Government Finance Directorate in cases of urgent need.

6.9 To help provide additional resilience, the department should identify suitably skilled individuals who could be called upon to reinforce Local Government Finance Directorate at very little notice in case of urgent need, whether because of a late decision requiring a lot of work, or because of the sudden absence of key individuals.

Recommendation twenty-two: The department needs to develop and implement a system for knowledge management.

6.10 The department needs to develop and implement a system for knowledge management. Contributing to this should be part of staff objectives, and it should become culturally part of how the programme and projects are managed. In particular, there should be specific activity to share understanding of the system as a whole across the directorates, possibly as part of a more detailed induction process.

Recommendation twenty-three: There should be a continuing programme of training across the directorates.

6.11 Particularly at more junior levels there could be greater awareness of the respective roles of policy advisors and analysts. The training programme should build analysts' knowledge of the operation of policy, and help ensure policy leads at all levels are intelligent customers of analysis. This should go beyond simply improving the understanding of who is responsible for which part of the process, but actively facilitate more productive collaboration. This could involve more technical training for policy professionals, recruiting staff with a more quantitative background, and strengthening project management skills generally.

Recommendation twenty-four: there should be a structured approach to evaluating the system and learning the lessons.

6.12 There is existing internal department guidance on project management which provides a checklist of processes to follow when a project concludes. On this basis, there should be a lessons learnt exercise each year focusing on how processes can be improved. Every two or three years, there should be a more in depth review, probably with external involvement, and occasionally it will be useful to have a deep dive into a particular aspect of the work.

7. Openness

Terms of reference

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

Findings

Elevating issues

7.1 We understand that the speed of escalation of problems had been an issue on occasions, but it was clear that the team have learnt from this experience, and there now appears to be a more conscious approach to elevating issues up the line. We did not identify any structural barriers to doing this.

7.2 In the operation of any complex system, there will always be risk of error: indeed, spotting error is one sign that quality control processes are working. It was good to hear that, even in the period immediately following the discovery of the overpayment error (see Introduction, para 1.4), senior managers had gone out of their way to praise staff who raised potential problems early, so that there was sufficient time to investigate.

7.3 Looking at openness more generally, work around proposed changes to business rates is sometimes, necessarily, restricted to a small group of people. This is not unusual for sensitive policy development. But it can limit the scope for effective challenge at key points, and there is a risk that the full range of issues (for example, the operational implications of a change, or the interactions with other aspects of local government finance) are not properly considered from the outset.

Openness in the work

7.4 The department works openly on many issues: there is a structure of working groups and regular engagement with representative bodies. A joint steering group and set of technical working groups have been established between the department and the Local Government Association to provide information and expert advice towards the implementation of the business rates retention system, and papers are published on the LGA website. The same applies for a technical working group on the Fair Funding Review.

7.5 The department also publishes a large amount of data and information which, taken together, provides the raw material to enable councils themselves to understand how the system impacts on them, and for other interested bodies to conduct analysis. However, a number of people have suggested that the department could do more to make the settlement workings more accessible, which would in turn facilitate effective external checking and challenge.

7.6 The department does use organisations such as CIPFA to support quality control processes. But this is often based on informal arrangements. The heavily compressed timetable at key points, and a lack of formal process and structure in some areas of activity, means that external scrutiny or peer review is not always possible or systematic. There is potential to do more here, and to do it through the year, as parts of the system are revised or drafted, rather than concentrating all the activity into the end-game.

External scrutiny

7.7 Some forms of external scrutiny already take place. The National Audit Office (NAO) has given quite a lot of attention to local government finance since 2013. They audit the Business Rates Account and Trust Statement on an annual basis, and have undertaken a substantial programme of value for money studies. There are also good examples of engagement with academics and external organisations on proposed methodology via technical working groups e.g. in the development of relative needs formulas as part of the Fair Funding Review. In addition, there has been increasing attention from bodies such as the Institute for Fiscal Studies.

7.8 The scope for effective external scrutiny by local government itself has been impacted by a reduction in resource in local authorities and their representative bodies, and the growing complexity of the system. In addition, the often heavily compressed timetable and informal working arrangements mean that opportunities for external scrutiny are not built into the process.

Recommendations

Recommendation twenty-five: Protocols should be established for the escalation of issues to senior management and Ministers.

7.9 Protocols should be developed and shared for the escalation of issues to Ministers and senior managers. These should put a premium on early notice, even if more time is needed to work up detailed proposals for addressing issues. The protocols should be part of the governance structure. In terms of culture, senior managers can reinforce the importance of early notice by responding constructively when problems are raised.

Recommendation twenty-six: Within the department, the process for managing sensitive work about changes to business rates as a tax should be formalised.

7.10 This formalisation will form a key part of the governance framework, and should include staff with responsibility for policy, analysis, and implementation, to ensure that fully informed advice is given to Ministers. We understand that this is the process which applies for HMRC taxes.

Recommendation twenty-seven: The department should look at ways of improving communication and accessibility of the settlement to local authorities.

7.11 There should be a specific programme of work to look at how to improve communication of the settlement for local authorities in particular. As a basic step, local authorities should be informed in advance of when key announcements will be made. Our recommendations on the timetable mean that the provisional and final settlements will be set to within a few days. Early notice of other announcements should be given.

7.12 There are a number of possible ways to increase the accessibility of the settlement. Would it be feasible to produce a statement for each local authority, showing how its own outcome had been calculated? Could more information be added to the Local Government Finance Report to help it be used more easily? Could the department circulate blank methodologies in advance of the provisional settlement (with a suitable health warning), to give local authorities a head start in understanding their own position? A good starting point would be to talk to a sample of local authorities to understand fully how they use the information that is published, and how it could be made clearer.

Recommendation twenty-eight: Peer challenge and external scrutiny should play bigger roles, with a view to designing quality into the system, rather than for late-stage checking

7.13 There should be more systematic use of peer challenge and external scrutiny. Given the nature and complexity of the system, it is unlikely that there will be one body or group of bodies who should be the single source of scrutiny. In addition, scrutiny from external bodies should not be limited to a single point in the process. Rather, effective scrutiny will be provided at a range of different stages.

7.14 The department should develop a framework for external and peer challenge that sets out how scrutiny can be applied across the system as a whole, who can provide it, and when it should happen. This framework should cover governance arrangements, work on policy development and analysis. The note at Annex F describes the purpose of different types of challenge or scrutiny and how it might be applied.

7.15 In developing the framework, the department should ensure that external testing is built into new change management processes – for example, using workshops including external parties to test or review proposed methodology. We recommend focusing on designing quality into the process, rather than relying solely on an intensive checking exercise towards the end. This should make it easier to use external experts to support this process at appropriate points through the year. Where confidentiality makes it difficult to involve local government representatives, the department should use peer challenge from another directorate or department. For example, the Government Actuary's Department (GAD) provide consultancy support, on a paid-for basis, for a number of departments on complex models which the Department for Education found helpful.

7.16 Bodies such as implementation working groups can be helpful, though it is important to be clear on the purpose of such groups, and how long their role will last, so as to avoid misunderstandings and frustration, potentially on both sides.

8. Culture

Terms of reference

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

Findings

8.1 Much of the direct answer to the specific question in the terms of reference comes in the earlier section on openness. We have seen active encouragement to staff to raise concerns promptly.

8.2 The wider culture in the directorates is an issue underpinning many of the findings of the review. We found a strong “can do” mentality, in which people rise to challenges, sometimes under very demanding circumstances, and help each other to deliver. The flipside of this is perhaps a readiness to accept these demanding circumstances as the inevitable way of the world, and an appetite for implementation risk which is implicitly higher than we encountered elsewhere.

8.3 The combination of growing complexity, tight timetables, and the sensitivity of the work have limited both transparency and the time for assurance work. External relations have held up pretty well, and individuals are widely respected, but some local authorities have expressed frustration at the lack of time and scope for real engagement.

Recommendations

Recommendation twenty-nine: Senior managers must play a key role in embedding new ways of working.

8.4 The thrust of this report is to shift the culture of this part of the department from one with a heavy reliance on the “can do” mentality, to one that is based more on process and structure. To complement the process recommendations in other sections, senior managers have a key role in explaining this culture shift, rewarding the right behaviours, and emphasising the importance of sticking to the new ways of doing business in testing times.

9. Conclusion

9.1 Taken as a whole, these recommendations will provide clearer processes, stronger systems, and stronger governance. These will help to create a culture equipped to cover both the familiar policy work and the newer delivery challenges with confidence.

9.2 In process terms, the report recommends that this will be achieved through a clearer structure for policy development, firm and achievable timetables, and stronger systems for knowledge management and change management, all underpinned by a clear governance framework. Culturally, staff at all levels will have to play their part in making this change happen – the test will come when something comes up at short notice, or goes wrong, and different ways of working come under pressure. In calm or choppy waters, this kind of planned approach is the best way through the complex challenges of the settlements for 2019 and 2020, to give maximum chance of delivering 100% accurate information, on time, and with greater transparency.

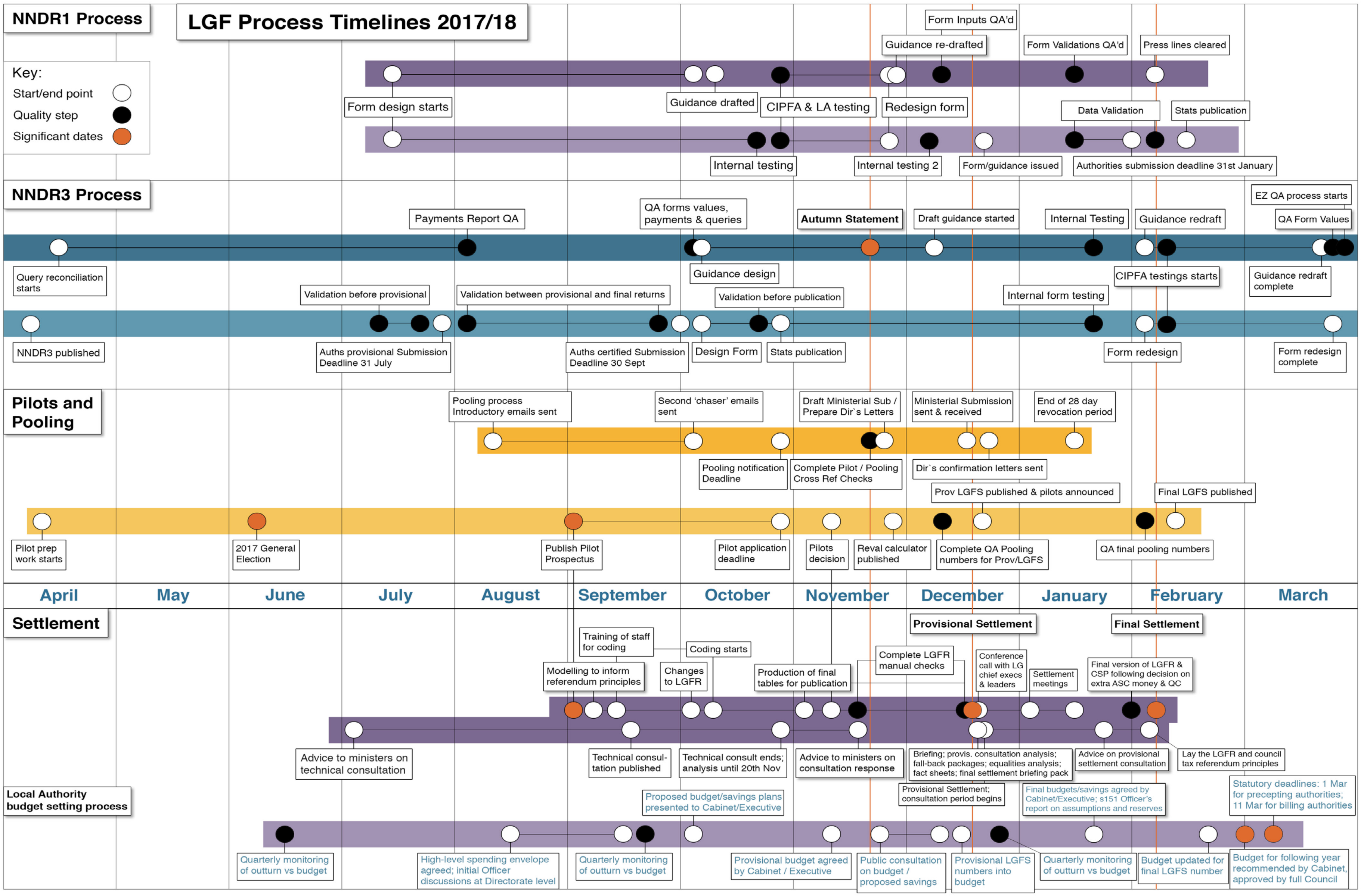
Annex A: Meetings held

Within MHCLG, I and members of the review team had meetings with Rishi Sunak MP, Minister for Local Government, with the Non-Executive Directors, and with senior managers in the department. We also held workshops with staff from across Local Government Finance and Analysis and Data Directorates.

Outside the department, we met people from the following organisations:

- Department for Work and Pensions
- HM Treasury
- HM Revenue and Customs
- Department for Digital, Media, Culture and Sport
- Home Office
- Department for Education
- Valuation Office Agency
- Government Actuary's Department
- National Audit Office
- Government Internal Audit Agency
- Infrastructure and Projects Authority
- The Chartered Institute of Public Finance and Accountancy
- Institute for Fiscal Studies
- Local Government Futures
- Local Government Association
- The Special Interest Group of Municipal Authorities
- London Councils
- Society of Local Authority Chief Executives
- Association of Local Authority Treasurers' Societies
- Camelot

Annex B: Local Government Finance Process Timeline 2017-18



Annex C: Changes to the Business Rates Retention Scheme and related legislation since its commencement in 2013-14

<u>2013-14</u>

Changes implemented:

- Collection fund accounting
- Transitional protection payments to safeguard ratepayers from large hikes in business rates following a revaluation.
- Cost of collection allowance to compensate billing authorities for the cost of billing and collecting, including the cost of enforcement action.
- City of London offset to compensate the City of London for its abnormally low council tax base.
- Designated areas- In 2012, the Government created “Enterprise Zones”, in respect of which, billing authorities are entitled to keep 100% of the “growth” in their business rates they collect.
- Enterprise Zone Relief
- Designated hereditaments- ensured local authorities are entitled to keep 100% of the rates they collect from new “renewable energy” hereditaments.
- Doubling of Small Business Rates Relief
- Pooling- two or more authorities could apply to be designated as a “pool” – and, hence, treated as if they were a single body for the purpose of the calculation and payment of tariff and top-up payments and levy and safety net payments.

The following pieces of Secondary Legislation were introduced in this year:

- Non-Domestic Rating (Rates Retention) Regulations 2013 (SI 2013/452)
- Non-Domestic Rating (Renewable Energy) Regulations 2013 (SI 2013/108)
- Non-Domestic Rating (Levy & Safety Net) Regulations 2013 (SI 2013/737)
- Non-Domestic Rating (Transitional Protection Payments) Regulations 2013 (SI 2013/106)
- Non-Domestic Rating (Designated Area) Regulations 2013 (SI 2013/107)
- Local Government Finance Act 2012 (Consequential Amendments) Order 2013 (SI 2013/733

<u>2014-15</u>

Changes Implemented:

- Creation of a further 4 Designated Areas
- 2% cap on the multiplier for 14-15 (under-indexation)
- Extension of SBRR doubling for a further year
- Allow SBRR to be given where a second property is occupied
- Allow authorities the option of “spreading” the cost of the “backdated appeal provision” over 5 years
- Decision to introduce three “new” temporary reliefs:

- New empty relief
- Long-term empty relief
- Retail relief

The "eligibility rules" for each of the reliefs were set by central government, but the reliefs were to be applied by authorities using their discretionary powers. To encourage them to do so, they were to be compensated via a s.31 grant for any relief they awarded. Subsequent "new reliefs" (with the exception of "broadband" relief), have followed the same model.

The following pieces of Secondary Legislation were introduced in this year:

- Non-Domestic Rating (Levy & Safety Net)(Amendment) Regulations 2014 (SI 2014/822)
- Non-Domestic Rating (Rates Retention)(Amendment) Regulations 2014 (SI 2014/96)
- Non-Domestic Rating (Designated Areas) Regulations 2014 (SI 2014/98)
- Local Government Finance Act 2012 (Transitional Provisions) Order 2014 (SI 2014/939)
- Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2014 (SI 2014/1375)

<u>2015-16</u>

Changes Implemented:

- Creation of 2 new designated areas
- Creation of "Additional Growth Pilots" in Gtr Manchester, Cheshire East, Cambridgeshire and Peterborough
- Further cap on the multiplier (under-indexation)
- Extension of SBRR doubling for a further year
- Extension of Retail relief for a further year

The following pieces of Secondary Legislation were introduced in this year:

- Non-Domestic Rating (Levy & Safety Net) (Amendment) Regulations 2015 (SI 2015/617)
- Non-Domestic Rating (Levy & Safety Net) (Amendment) (No 2) Regulations 2015 (SI 2013/2039)
- Non-Domestic Rating (Shale Oil &Gas & Miscellaneous Amendments) Regulations 2015 (SI 2013/628)
- Non-Domestic Rating (Northern Line Extension) Regulations 2015 (SI 2015/354)
- Non-Domestic Rating (Designated Area) Regulations 2015 (SI 2015/353)

2016-17

Changes implemented:

- Creation of a further 96 designated areas
- Extension of “Additional Growth Pilots” to West Midlands and Tees Valley authorities
- Ending of retail relief
- Introduction of temporary relief “in lieu of transitional relief”
- Agreement to allow North Somerset to keep all the income from the Port of Bristol
- Extension of “designated hereditaments” to shale oil ad gas sites
- Extension of SBRR doubling for a further year

The following pieces of Secondary Legislation were introduced in this year:

- Non-Domestic Rating (Rates Retention) (Amendment) 2016 (SI 2016/1268)
- Non-Domestic Rating (Designated Areas etc) Regulations 2016 (SI 2016/317)

2017-18

Changes implemented:

- Creation of a further 75 designated areas
- Creation of 100% retention pilots in GM, Liverpool Cornwall, WM and WoE
    - Increase of GLA share to 37% (from 20%)
    - Permanent doubling of SBRR and changes to “thresholds”
    - Changes to tariffs and top-ups to “strip-out” impact of Revaluation 2017
- Doubling of rural rate relief (compensated via s.31)
- Introduction of new temporary “discretionary” reliefs (compensated via s.31) for:
    - Local newspapers
    - Supporting small businesses
    - Discretionary relief Schemes
    - Pub Relief
- Creation of new permanent relief for “broadband”

The following pieces of Primary Legislation were introduced in this year:

- The Telecommunications Infrastructure (Relief from Non-Domestic Rates) Act 2018

The following pieces of Secondary Legislation were introduced in this year:

- Non-Domestic Rating (Rates Retention (Amendment) Regulations 2017 (SI 2017/1321)
- Non-Domestic Rating (Renewable Energy Projects) (Amendment) Regulations 2017 (SI 2017/1132)
- Non-Domestic Rating (Rates Retention) and (Levy and Safety Net) (Amendment) Regulations 2017 (SI 2017/496)
- Non-Domestic Rating (Designated Areas etc) (Amendment) Regulations 2017 (SI 2017/471)
- Non-Domestic Rating (Designated Areas etc) Regulations 2017 (SI 2017/318)

2018-19

Changes implemented:

- Creation of 3 new designated areas + amendments to the period for which compensation is payable in respect of relief
- Creation of new 100% business rates retention pilots in 10 areas + London
- Revision to tariffs and top-ups (including 2017-18 tariffs and top-ups) to reflect updated Revaluation data
- Further cap on multiplier (under-indexation – multiplier to track CPI from 18-19 onwards)
- Extension of "Pub Relief" for a further year

The following pieces of Secondary Legislation were introduced in this year:

- Non-Domestic Rating (Rates Retention & Levy & Safety Net) (Amendment) Regulations 2018 (SI 2018/463)
- Non-Domestic Rating (Designated Areas) Regulations 2018 (SI 2018/213

Annex D: Publication dates of the Local Government Financial Settlement over time

The table below shows the publication dates for the Provisional and Final Local Government Financial Settlement over time.

Year	Provisional Settlement	Final Settlement
2001-02	27 November 2000	29 January 2001
2002-03	4 December 2001	28 January 2002
2003-04	5 December 2002	3 February 2003
2004-05	19 November 2003	29 January 2004
2005-06	2 December 2004	27 January 2005
2006-07	5 December 2005	31 January 2006
2007-08	28 November 2006	18 January 2007
2008-09	6 December 2007	24 January 2008
2009-10	26 November 2008	21 January 2009
2010-11	26 November 2009	20 January 2010
2011-12	13 December 2010	31 January 2011
2012-13	8 December 2011	31 January 2012
2013-14	19 December 2012	4 February 2013
2014-15	18 December 2013	5 February 2014
2015-16	18 December 2014	3 February 2015
2016-17	17 December 2015	8 February 2016
2017-18	15 December 2016	20 February 2017
2018-19	19 December 2017	6 February 2018

Annex E: Macpherson (2013) Recommendations[3]

Recommendation 1: All business critical models in government should have appropriate quality assurance of their inputs, methodology and outputs in the context of the risks their use represents. If unavoidable time constraints prevent this happening then this should be explicitly acknowledged and reported.

Recommendation 2: All business critical models in government should be managed within a framework that ensures appropriately specialist staff are responsible for developing and using the models as well as quality assurance.

Recommendation 3: There should be a single Senior Responsible Owner for each model ("Model SRO") through its lifecycle, and clarity from the outset on how QA is to be managed. Key submissions using results from the model should summarise the QA that has been undertaken, including the extent of expert scrutiny and challenge. They should also confirm that the Model SRO is content that the QA process is compliant and appropriate, model risks, limitations and major assumptions are understood by users of the model, and the use of the model outputs are appropriate.

Recommendation 4: The Accounting Officer's governance statement within the annual report should include confirmation that an appropriate QA framework is in place and is used for all business critical models. As part of this process, and to provide effective risk management, the Accounting Officer may wish to confirm that there is an up-to-date list of business critical models and that this is publicly available. This recommendation applies to Accounting Officers for Arm's Length Bodies, as well as to departments.

Recommendation 5: All departments and their Arm's Length Bodies should have in place, by the end of June 2013, a plan for how they will create the right environment for QA, including how they will address the issues of culture, capacity and capability, and control. These plans will be expected to include consideration of the aspects identified in Box 4.A.

Recommendation 6: All departments and their Arm's Length Bodies should have in place, by the end of June 2013, a plan for how they will ensure they have effective processes – including guidance and model documentation – to underpin appropriate QA across their organisation. These plans will be expected to include consideration of the aspects identified in Box 4.B on page 38. To support this recommendation, succinct guidance setting out the key, generic issues that drive effective quality assurance will be added to "Managing Public Money", which offers guidance on how to handle public funds properly.

Recommendation 7: To support the implementation of these recommendations, the review recommends the establishment of an expert departmental working group to continue to share best practice experience and to help embed this across government.

Recommendation 8: Organisations' progress against these recommendations should be assessed 12 months after this review is published. HMT will organise the assessment, possibly with support from another department

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[3] This annex makes reference to the Macpherson Review accessed here: https://www.gov.uk/government/publications/review-of-quality-assurance-of-government-models

Annex F: Elements of an external scrutiny framework

Subject of scrutiny

- Policy formation and implementation - this consists of the processes for the development and delivery of policy.
- Modelling and calculations - the analysis underpinning the maintenance and operation of a policy as well as design.
- Governance - the rules, protocols and structures that underpin the internal and external quality management process. This should include change & project management and risk management.

Type of scrutiny

- Part of annual process or business as usual activity - scrutiny provided at this stage ensures that quality is built into the process directly and from the start in addition to checking of the final outputs.
- Periodic review - a more detailed review of the policy design and analysis, which can identify future improvements and lessons learned.
- Deep Dive - provide a forward look on the wider policy including design and analytical methodologies.

Source of challenge

- Internal - quality assurance and quality control processes within the policy and analyst teams undertaken by staff.
- Peer - external challenge provided from within government e.g. by other departments or government organisations. This is to provide an external perspective from teams who deal with similar issues or constraints.
- External - external challenge provided by organisations external to government which consider impact on local government e.g. local authorities, consultancies and academics.

Annex G: Complete list of recommendations

Complexity

Recommendation one: The department should take very careful account of the risks of adding to the complexity of the system, particularly before 2020.

Recommendation two: There should be a clear timetable agreed in advance across central government for all the decisions required for the local government settlement.

Recommendation three: The final settlement should be announced no later than 31 January, and the provisional settlement around 5 December.

Recommendation four: Quality control measures should be built into the process at all stages.

Recommendation five: There should be a lockdown period built into this timetable to allow for quality control work.

Recommendation six: The Department should continue to investigate and invest in the best use of software for data collection and analysis to support the operation and maintenance of the wider local government finance system.

Recommendation seven: The deliverability of policy changes should form an integral part of the advice to ministers.

Recommendation eight: The department should keep in mind the possibility of more radical steps to reduce risk.

Governance and management

Recommendation nine: The department should implement and embed a more comprehensive governance structure to cover all its work to deliver the new system in 2020.

Recommendation ten: The Programme Board should be the focal point for all the work to deliver the changes to the local government finance system for 2020.

Recommendation eleven: The Senior Responsible Owner (SRO) should be at least at Director level and should remain in post for the lifecycle of the programme. He or she should be supported by a portfolio manager with appropriate skills.

Recommendation twelve: The strengthened governance framework should include more formal arrangements for managing a number of dimensions of the work, including change, risk, knowledge, and quality.

Recommendation thirteen: Clarity over roles and responsibilities should be improved, supported by greater training to improve mutual understanding.

Recommendation fourteen: All analysis and methodology should have documented sign off from whoever the SRO determines as appropriate.

Recommendation fifteen*:* There should be in place sufficient internal documentation to enable new and existing team members to understand more quickly how the business rates retention process works, and how different parts interact. This should also record changes as they are made, in line with the governance protocols.

Recommendation sixteen: There should be a quality management strategy, providing a clear and documented approach to the work as a whole, covering quality control, assurance and governance.

Recommendation seventeen: To improve the policy-analyst relationship further, modelling and analysis should be more central to the way the system is run.

Recommendation eighteen: The department should consider different approaches to auditing and assuring its own systems. In all cases, there should be a clear and rigorous internal process for tracking progress on Audit recommendations.

Capacity and capability

Recommendation nineteen: The department should produce a staffing plan for the programme, to ensure that the appropriate skills are in place, and to strengthen stability and reduce key person risk. This is likely to require a few extra posts in the directorates.

Recommendation twenty: In addition to the portfolio manager, staff with experience of tax policy and of operations, perhaps in local government, would add to the skill set.

Recommendation twenty-one: Identify suitably skilled individuals within the department who could be called upon to reinforce Local Government Finance Directorate in cases of urgent need.

Recommendation twenty-two: The department needs to develop and implement a system for knowledge management.

Recommendation twenty-three: There should be a continuing programme of training across the directorates.

Recommendation twenty-four: There should be a structured approach to evaluating the system and learning the lessons

Openness

Recommendation twenty-five: Protocols should be established for the escalation of issues to senior management and Ministers.

Recommendation twenty-six: Within the department, the process for managing sensitive work about changes to business rates as a tax should be formalised.

Recommendation twenty-seven: The department should look at ways of improving communication and accessibility of the settlement to local authorities.

Recommendation twenty-eight: Peer challenge and external scrutiny should play bigger roles, with a view to designing quality into the system, rather than for late-stage checking

Culture

Recommendation twenty-nine: Senior managers must play a key role in embedding new ways of working.

Annex H: Glossary and Abbreviations

Baseline Funding Level	This is part of the assessment of how funding should be redistributed between authorities within the current business rates retention system. The government established how much funding to allocate to each authority, taking account of the formula for determining authorities' relative needs and the total amount of income available for local government. This 'baseline funding level' is then compared against an authority's expected income from business rates (its business rates baseline). This will determine whether the authority must pay a sum into the redistribution system via a tariff, or receive a payment to top up its income. This assessment was made at the start of the system in 2012, and is intend to be reset in 2020 at which point it will take account of the outcome of the Fair Funding Review.
Business rates	Business rates is the usual term for the National Non-Domestic Rate, a property tax charged on all properties which are not used for residential purposes.
Business rates account and trust statement	One of three accounts prepared by the Ministry of Housing, Communities and Local Government in relation to the operation of the business rates system. It shows how locally collected business rates income flows through the business rates retention system.
Business rates multiplier	A national rate set by the Secretary of State which is used by councils to determine business rates bills, alongside a property's rateable value. The multiplier for 2018/19 is 49.3p, with a lower rate of 48p for small businesses.
Business rates pools	This is a facility for groups of authorities to join together and be treated as a single authority for the purposes of the business rates retention system. Doing so may enable authorities to share any risk and growth related to their collective business rates income in any given year.
Business rates reliefs	Discounts that can be applied by councils to all or part of business rates bills. These include discounts for small businesses, empty properties, certain businesses in rural areas and for charities.
Business rates retention	Reforms to the local government finance system which mean that local government as a whole retains a proportion of business rates income which is then redistributed between councils according to take account of their relative needs. Under the current system, which was introduced in 2013, local government retains 50% of locally collected business rates. Under current proposals, the retained proportion will increase to 75% by 2020/21.
Business rates retention pilots	A series of arrangements which have seen authorities or groups of local authorities pilot aspects of a reformed business rates retention system. In 2018/19 there are a total of 16 pilot areas, involving 150 local authorities who collectively retain 100% of locally collected business rates. The Government has published

	a prospectus inviting bids for further pilots in 2019/20.
Business rates revaluation	The process by which the Valuation Office Agency adjusts the list of rateable values to reflect economic changes in the property market. The most recent revaluation was in 2017 (based on the market at 1 April 2015), and the Government has announced that the next will be brought forward a year to 2021 (based on the market at 1 April 2019). The revaluation is 'revenue neutral' which means that the total amount of money raised from business rates will not change as a result of the process after allowing for inflation and future appeals.
Fair Funding Review	The name given to the process by which government will establish a new assessment of local authorities' relative needs by 2020. This new assessment or formula will be used to determine how funding should be shared between authorities from 2020/21.
Local government Finance Report	A document that must be published as part of the local government finance settlement and approved by the House of Commons. It sets out the amount and basis of distribution of funding to local government
Local government finance settlement	The annual determination of funding to local government, which sets out allocations of funding to individual local authorities. The annual settlement must be approved by the House of Commons.
NNDR forms	The forms that MHCLG uses to collect information from local billing authorities on the income they expect to collect or have collected expect to collect from business rates ('national non-domestic rates').
Rateable value	A valuation determined by the Valuation Office Agency for each property liable for business rates. Broadly speaking, the rateable value represents the annual rental value of the property at the valuation date (which for the current 2017 rating list is 1 April 2015). Councils multiply a property's rateable value by the current business rates multiplier to calculate business rate bills.
Revenue Support Grant	Introduced in 1990, this is the central grant given to local authorities to support their services. In recent years, local authorities' income from grant has decreased and a higher proportion comes from business rates and council tax.
Section 31 grant	Government has power under s.31 of the Local Government Act 2013 to pay grant to local authorities. This is a mechanism used to pay compensation to local authorities for income they may have lost as a result of changes to business rates reliefs.
STATA	A statistical software package used for data management and analysis.
Tariff and top-up	Part of the redistribution system under business rates retention. Authorities whose income exceeds their assessed need will pay a tariff. Authorities whose income is less than their assessed level of need will receive a top up payment.

ADD	Analysis and Data Directorate
CIPFA	Chartered Institute of Public Finance and Accountancy
HMRC	Her Majesty’s Revenue and Customs
HMT	Her Majesty’s Treasury
LGA	Local Government Association
LGF	Local Government Finance
LGFR	Local Government Finance Report
MHCLG	Ministry of Housing, Communities and Local Government
NAO	National Audit Office
NNDR	National Non-Domestic Rates
PPM	Programme and Project Management
QA	Quality Assurance
SBRR	Small Business Rates Relief
SRO	Senior Responsbile Officer
VOA	Valuation Office Agency