



Ministry of Housing,
Communities &
Local Government

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Dear Clive,

LOCAL GOVERNMENT FINANCE: REVIEW OF GOVERNANCE AND PROCESSES

I am writing to inform you that we have today published the report of the independent review of the governance and processes which underpin the Department's oversight of the business rates system. As you will recall, the review was commissioned in April by the former Secretary of State, in response to issues in relation to the Department's operation of the business rates retention system.

The review was undertaken by Andrew Hudson, former Director General at HM Treasury and former Chief Executive of the Valuation Office Agency. His terms of reference asked him to consider issues under five themes: complexity; governance and management; capacity and capability; openness; and culture.

Hudson made some important observations about the way the Department has managed the business rates system over recent years. In general, he has found that the Department and local authorities have managed the growing complexity of the business rates system well, and with commendably few errors. He has, however, found that the Department's processes can be strengthened, in particular to help ensure that we can effectively manage future challenges. This report has made a series of recommendations to help us do so, the majority of which relate to the Department's internal processes. I can confirm that we have accepted all of the recommendations made in the Review, with work underway to ensure they are implemented in a timely manner. The attached note sets out our response to the recommendations in more detail.

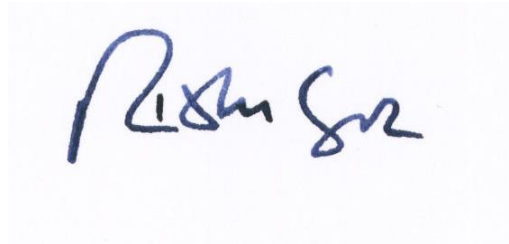
In addition to the recommendations focussed on the Department's own processes, Hudson considers in his report the overall approach to annual decisions on the local government finance system. In particular, he recommends that the provisional settlement should take place around 5 December and the final settlement no later than 31 January. We have accepted this recommendation, and will aim to publish by these dates, though will of course need to make sure each year that the settlement timetable aligns with fiscal events and Spending Reviews. Having a clear settlement timetable in place will help ensure that all parties – including local authorities – can take a more planned approach.

To implement this recommendation, we will publish in advance the planned date of the provisional and final settlements each year, after taking account of any specific circumstances, including the timing of fiscal events. I can confirm that we aim to publish the provisional settlement for 2019-20 on Thursday 6 December.

Given the wider sector interest in this report and the settlement timetable, we will also make this letter available to sector/press representatives.

A full copy of the report can be found on the Department's website:

<https://www.gov.uk/government/publications/local-government-finance-review-of-governance-and-processes>.

A handwritten signature in blue ink, appearing to read 'Rishi Sunak', is centered on a white rectangular background.

RISHI SUNAK MP

Local Government Finance: Review of processes and procedures - Recommendations and response

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.

Response

We accept these recommendations. We agree that the business rates system has grown in complexity and now has a central role in overall local government funding. As we work with local government to design reforms to business rates retention, one of our central aims is to consider ways in which the business rates retention system can be made simpler while still providing a clear incentive for growth and appropriate protection from risk. This work will continue to be overseen by the joint MHCLG and Local Government Association Steering Group.

We also recognise that the timetable for decision making has become tighter in recent years and that having a clear timetable in place will help ensure that all parties – including local authorities – can take a more planned approach. The settlement timetable will of course need to be decided on an annual basis, to take account of the specific circumstances in any year, including the timing of fiscal events and Spending Reviews. We have confirmed that we aim to publish the provisional settlement for 2019-20 on Thursday 6 December.

We are pleased that Hudson recognised that quality assurance is a core part of analytical processes. In light of his observations, we are considering where we might need to strengthen our existing processes to ensure that appropriate quality control measures can be built into our practices, including broader policy development. For example, we have established a new Senior Governance Group to oversee quality assurance activity in the relevant part of the Department, including a refresh of the analytical quality assurance strategy.

We agree with the recommendation that there should be a specific lockdown period built into the timetable for the settlement.

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.

Response

We accept these recommendations. We are pleased that Hudson found that the internal arrangements for governing the Department's work on the business rates system have been strengthened over the last year. We accept his recommendation that we should go further.

In May, we established a new Operating Board to oversee the operation of the business rates retention system. In response to the report, we have also made good progress on the design of the new governance arrangements for the whole of the local government finance system. This includes a refreshed Programme Board with strengthened capacity for external and peer challenge; a new system for managing progress on all areas of work and clearer processes for escalation of issues and assessment of priorities. The Senior Responsible Owner for the programme is the Local Government Finance Director, and we have put in place a new Portfolio Team to support delivery. The first phase of these governance changes is expected to be implemented this autumn.

We are confident that we have strong relationships between policy officials and analysts, both on a day to day basis and as part of our existing management systems. We agree with Hudson's observation that this is essential to the effective delivery of our work. The role of Analysts will be central to the new governance arrangements, for example, as members of all relevant Boards.

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

Response

We accept these recommendations. We are pleased that Hudson highlighted that the officials responsible for the business rates retention system have strong technical and policy expertise, and have demonstrated considerable commitment. We accept the recommendation that we take steps to strengthen further resilience and capacity in relation to operational delivery and programme management.

We expect to have completed a skills audit and staffing plan by the end of the year. We have already strengthened our programme management capacity and have expanded an existing rolling programme of secondments from local government. We will continue to review our overall resourcing as part of normal business planning.

We are continuing work to improve our system of knowledge management. In particular, we expect the Business Rates Retention Operating Manual to be completed and published in the Autumn.

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

Response

We accept these recommendations. We are pleased that Hudson found that, in general, our processes around the local government finance system are open; for example, we have in place a series of joint working groups with the Local Government Association. We accept the recommendation that we build on this to develop a more systematic approach to external scrutiny. We expect to have completed this work by Spring 2019 and have already taken several steps. For example, membership of the refreshed Programme Board and all other project and delivery boards will include colleagues who can provide peer challenge. This

may include, for example, members from other organisations or government departments with experience of similar systems of reform or delivery.

We are also actively looking at ways we can incorporate external scrutiny into our delivery systems, for example, establishing more formal arrangements for asking groups of local authorities to help us review data forms as they are designed. We have also established a dedicated webpage that allows us to publish information on the business rates retention system in a single place online.

Culture

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

Response

We accept this recommendation which will be reflected in our internal performance management system.