



National Audit Office

DEPARTMENTAL OVERVIEW

A summary of the NAO's work on the Department for Business, Innovation and Skills 2010-11

SEPTEMBER 2011

Our vision is to help the nation spend wisely.

We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons. He is the head of the NAO, which employs some 880 staff. He and the NAO are totally independent of government. He certifies the accounts of all government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work led to savings and other efficiency gains worth more than £1 billion in 2010-11.



National Audit Office

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Introduction

Aim and scope of this briefing

The primary purpose of this Departmental Overview is to provide the Business, Innovation and Skills Select Committee with a summary of the work by the National Audit Office on the Department for Business, Innovation and Skills since June 2010. It is one of seventeen we have produced covering our work on each major government department. The briefing draws on the Department's Annual Report and Accounts for 2010-11 and other published sources, but its main focus is the findings of work published by the NAO, in particular, those areas where we believe the Department's performance could be improved. The content of the briefing has been shared with the Department to ensure that the evidence presented is factually accurate, but the content of the briefing is the sole responsibility of the NAO.

We will continue to support all select committees in 2011-12, providing briefing on each major department and supporting specific inquiries wherever our expertise and perspective can add value.

Part One

About the Department

The Department's responsibilities

1 The Department for Business, Innovation and Skills (the Department) is focused on delivering the Government's goal of sustained and balanced economic growth. It is responsible for government policy on: science and research; innovation; enterprise and business; fair markets; better regulation; universities and skills; regional economic development; the Shareholder Executive; and UK Trade and Investment (which reports to both the Department and the Foreign and Commonwealth Office).

How the Department is currently organised

2 The Departmental Board provides the collective strategic and operational leadership of the Department and comprises Ministers, Executive Directors General and Non-Executive members drawn from various walks of life. The Board delegates some responsibilities to other boards and committees including: the Executive Board, the Executive Policy Board, the Executive Finance Board, the Performance and Development Committee and the Audit and Risk Committee.

3 The day-to-day management of the Department is led by the BIS Permanent Secretary and supported by a Management Team of eight Directors General, who each lead a management group: Economics, Strategy and Better Regulation; Market Frameworks; Finance and Commercial; Legal, People and Communications; UK Trade and Investment; Business and Skills; Knowledge and Innovation; and the Shareholder Executive.

4 The Department devolves most of its delivery to partner organisations, including 31 non-departmental public bodies (Appendix One). The largest spending bodies include the Higher Education Funding Council for England, the Skills Funding Agency, seven Research Councils, and eight Regional Development Agencies. Despite their size, the range of smaller bodies, such as the Competition Commission or the Student Loans Company play a key role in delivering departmental objectives.

Where the Department spends its money

5 The Department's gross expenditure for 2010-11 was £27.1 billion¹ of which around 70 per cent was spent through its partner organisations; the Core Department's net expenditure was £4.9 billion.² The Department employs around 8,700 staff including those within its consolidated bodies, of which 3,500 are employed by the Core Department.

6 The Department's most significant expenditure for 2010-11 is shown in **Figure 1** overleaf.

7 The Department also has a substantial and complex balance sheet. At 31 March 2011 the Department's net assets were £26.5 billion. The majority of the balance sheet relates to student loan investments which are valued at £25 billion.

Recent developments

8 The Department has gone through a major restructuring exercise during 2010-11 – staff numbers have been reduced by 11 per cent³ and departmental divisions reconfigured.

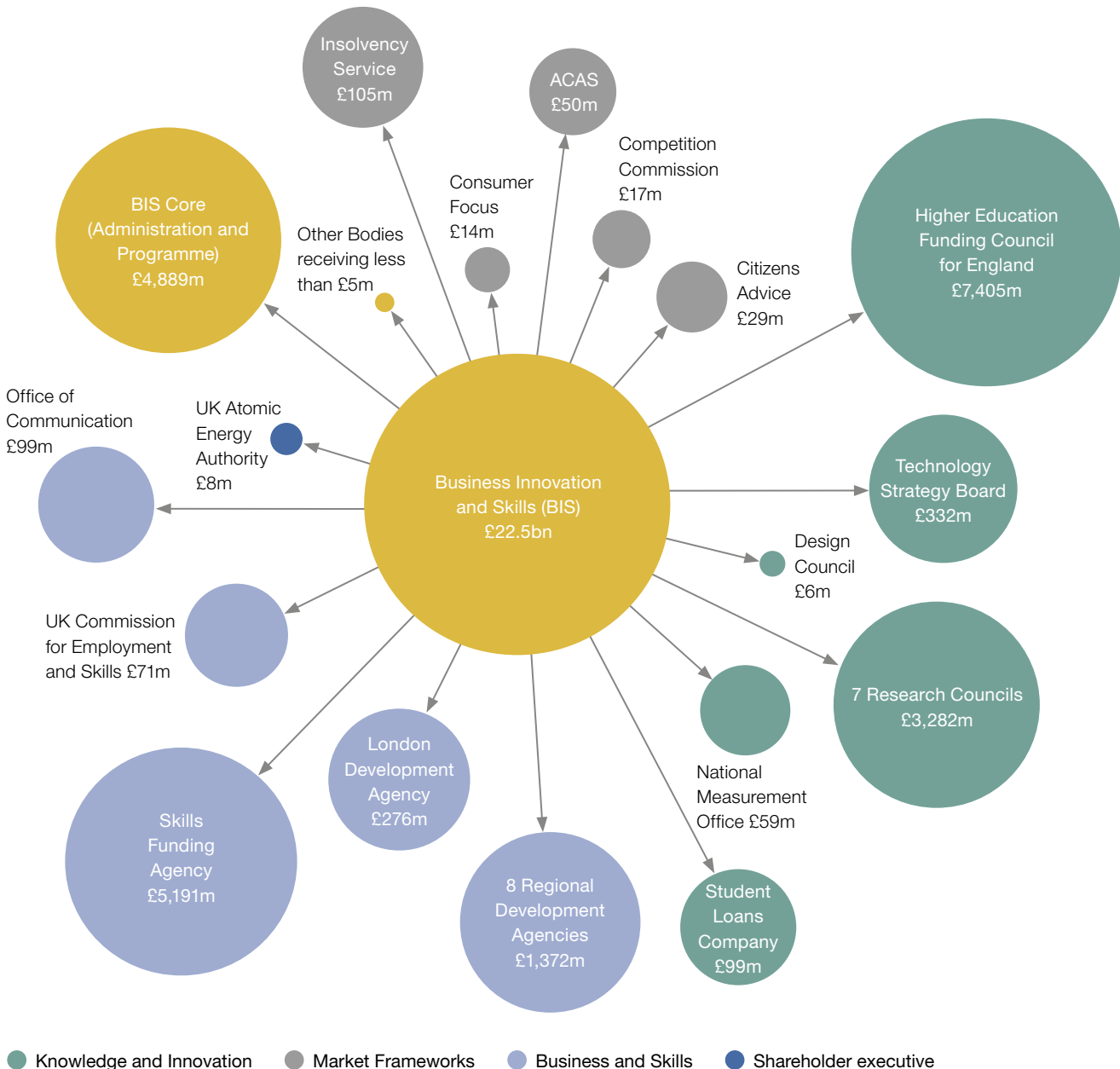
¹ *Business, Innovation and Skills Annual Report and Accounts – Consolidated Accounts*, <http://www.bis.gov.uk/assets/biscore/corporate/docs/b/11-p102-bis-annual-report-and-accounts-2010-11>

² Per Note 14 of the *BIS Consolidated Accounts*.

³ *Business, Innovation and Skills Annual Report and Accounts – Consolidated Accounts*, Note 9, <http://www.bis.gov.uk/assets/biscore/corporate/docs/b/11-p102-bis-annual-report-and-accounts-2010-11.pdf>

Figure 1

The most significant spending bodies within the Business, Innovation and Skills group, 2010-11



NOTES

- 1 Funds flow are based on the 2010-11 BIS Resource Accounts, Note 14. This note reconciles to the Statement of Comprehensive Net Expenditure whereas the estimate figures referred to in Part 2 agree to the Statement of Parliamentary Supply. Differences between these financial statements are explained in the BIS Consolidated Accounts.
- 2 In addition to the above bodies the Department is involved in policy that concerns the activities of a number of bodies that are independent of the Department. These bodies include Exchequer funded non-Ministerial Departments (Postcomm, Office of Fair Trading and the Export Credit Guarantee Department). In addition, Companies House and the Intellectual Property Office are Executive Agencies of the Department but are trading funds and financially independent.
- 3 The Department, along with the Foreign and Commonwealth Office, also meets the administration costs of UK Trade and Investment, with the Department for Business, Innovation and Skills responsible for UK Costs and Foreign and Commonwealth Office responsible for overseas costs.

Source: Department for Business, Innovation and Skills Resource Accounts

9 Other significant developments include:

- The **Higher Education White Paper** – published in June 2011. This White Paper sets out major reforms for the Higher Education System – predominantly transferring the funding of Higher Education from the taxpayer to the graduate.
- The **Postal Services Act 2011** – received Royal Assent in June 2011. This opens up Royal Mail to private ownership and allows for the legal and operational separation of the Post Office and Royal Mail and the transfer of the Royal Mail's historic pension deficit into government. The Act also makes provision for a 10 per cent employee share scheme and establishes a new regulatory regime for the postal services sector.
- The **Business Growth Fund** – launched in May 2011. This is a £2.5 billion fund to provide funding for UK Small- and Medium-sized Enterprises.
- The **Trade White Paper** – published in February 2011. Its aims includes the promotion and facilitation of trade overseas and the strengthening of the multilateral trading system.
- The **Green Investment Bank** will be brought into operation in September 2012.
- The functions of the **Regional Development Agencies (RDAs)** will be discontinued or transferred by April 2012.
- The Department plans to set up a network of **Technology and Innovation Centres** to support growth by aiding the commercialisation of technology research by April 2012.
- **Reforms to Further Education** – As with Higher Education this will involve some transfer of funding from the taxpayer to the learner through the provision of loans.

Capability and leadership

10 In 2006, the Cabinet Office launched Capability Reviews to assess departments' leadership, strategy and delivery – to improve departmental readiness for future challenges and to enable departments to act on long-term key development areas. Since publication of the last round of external assessments, between April 2008 and December 2009, departments are now required to conduct and publish self-assessments and resultant action plans against standard criteria set out in the Cabinet Office model of capability, which was updated in July 2009.⁴ Departments must rate their capability against ten criteria under three themes:

- **Leadership criteria** – 'set direction'; 'ignite passion, pace and drive'; and 'develop people'.
- **Strategy criteria** – 'set strategy and focus on outcomes'; 'base choices on evidence and customer insight'; and 'collaborate and build common purpose'.
- **Delivery criteria** – 'innovate and improve delivery'; 'plan, resource and prioritise'; 'develop clear roles, responsibilities and delivery models'; and 'manage performance and value for money'.

11 All self-assessments are due for completion by March 2012, with the first self assessment nearing completion. In addition to self assessment, Departments also have the option of asking the Cabinet Office to undertake a full external Capability Review assessment.

12 The Civil Service People Survey aims to provide consistent and robust metrics to help government understand how it can improve levels of engagement across the Civil Service. As part of this survey, civil servants across all participating organisations are asked a range of questions across nine themes which seek to measure their experiences at work. We present here the results of the second annual people survey for the Department – undertaken between mid-September 2010 and the end of October 2010 – covering the themes of leadership and managing change, and understanding of organisational objectives and purpose (**Figure 2** overleaf). The results of 17 major departments are in Appendix Two.

⁴ More information about Capability Reviews is available at: www.civilservice.gov.uk/about/improving/capability/index.aspx

Figure 2
2010 Civil Service People Survey: Department for Business, Innovation and Skills

Theme	Theme score (% positive) ¹	Difference from 2009 survey	Difference from Civil Service 2010 ²
Leadership and managing change			
I feel that the Department as a whole is managed well	38	-8	-3
Senior Civil Servants in the Department are sufficiently visible	50	-4	5
I believe the actions of Senior Civil Servants are consistent with the Department's values	40	-5	1
I believe the Departmental Board has a clear vision for the future of the Department	29	-11	-6
Overall, I have confidence in the decisions made by the Department's Senior Civil Servants	33	-8	-3
I feel that change is managed well in the Department	31	-10	4
When changes are made in the Department they are usually for the better	18	-7	-5
The Department keeps me informed about matters that affect me	58	-8	4
I have the opportunity to contribute my views before decisions are made that affect me	28	-2	-4
I think it is safe to challenge the way things are done in the Department	34	-5	-5
Organisational objectives and purpose			
I have a clear understanding of the Department's purpose	75	-5	-9
I have a clear understanding of the Department's objectives	68	-8	-9
I understand how my work contributes to the Department's objectives	75	-5	-5

NOTES

- 1 Percentage positive measures the proportion of respondents who selected either 'agree' or 'strongly agree' for a question.
- 2 The 2010 benchmark is the median per cent positive across all organisations that participated in the 2010 Civil Service People Survey. The difference between the Department and the Civil Service (Appendix Two) may differ due to rounding.

Source: Department for Business, Innovation and Skills. Staff Survey Results, Autumn 2010

13 As part of the annual survey, each Department receives an engagement index, assessing the level of staff engagement determined by: the extent to which staff speak positively of the organisation, are emotionally attached and committed to it, and are motivated to do the best for the organisation. In 2010, the Department for Business, Innovation and Skills achieved an engagement index of 50 per cent, four percentage points lower than in 2009 and seven percentage points lower than the 2010 Civil Service average.

14 During the past year the Department has gone through a number of changes in terms of completing the merger of the two predecessor departments⁵ and beginning a period of cost reduction. The Department's **Statement on Internal Control**⁶ acknowledged that whilst the Department has implemented restructuring quickly to "reduce uncertainty for staff", the restructuring has created "risks around loss of capability, expertise and low staff morale."

⁵ The Department for Business, Enterprise and Regulatory Reform and the Department for Universities, Innovation and Skills

⁶ *BIS Annual Report and Accounts 2010-11 – Statement on Internal Control*, <http://www.bis.gov.uk/assets/biscore/corporate/docs/b/11-p102-bis-annual-report-and-accounts-2010-11>

Part Two

Financial management

15 The ability of departments to control costs and drive out waste requires professional financial management and reporting. In particular, departments need to be better at linking costs to services and benchmarking performance to determine whether costs are justified and value for money can be improved. Organisations also need to move their risk management arrangements from a process-led approach to one which supports the efficient and effective delivery of services. Organisations have to publish Statements on Internal Control⁷ with their Annual Financial Statements which describe their arrangements for risk management, internal control and governance.

Financial outturn for 2010-11 and comparison with budget

16 Each year the Department's outturn against the funding voted by Parliament through its departmental supply estimate is reported in the Department's **Consolidated Accounts**.⁸ For 2010-11, the Department's overall net spending against its supply estimate was £23.5 billion, £807 million below the estimate of £24.3 billion. This spending split across three broad Departmental objectives:

- Increasing UK Competitiveness: £2.2 billion;
- Scientific Usage in the UK: £3.7 billion; and
- Learning and Skills: £17.6 billion.

17 The key reasons for this underspend,⁹ were in respect of maintenance and dependents' grants made to students and various business support schemes, including capital grant projects; the Small Firms Loan and Enterprise Guarantee schemes; grants for business investment; and the UK Innovation fund, largely as a result of lower than profiled demand.

Progress on efficiency and cost reduction

18 Departments are under increasing pressure to reduce costs. The scale of cost reduction required means that they have to look beyond immediate short-term savings, and think more radically about how to take cost out of the business and how to sustain this in the longer term. Our **Short Guide to Structured Cost Reduction**,¹⁰ published in June 2010, sets out the high level principles that we would expect Departments to follow in taking a structured approach to cost reduction. It covers the three stages of cost reduction – tactical efficiency savings, strategic operational realignment, and sustainable cost reduction – and outlines nine principles underlying structured cost reduction, including, having a data-driven approach to understanding, comparing and interrogating costs.

19 We have published detailed information and guidance on a number of the principles underpinning effective structured cost reductions, including **Managing risks in government**,¹¹ **Progress in improving financial management in government**,¹² and **Taking the measurement of government performance**.¹³

20 The Department has already begun a programme of cost reduction through significant reductions in staff and the streamlining of the Department's partner organisations. Significant cost reductions reported for financial year 2010-11¹⁴ were as follows:

⁷ From 2011-12, Departments will produce a Governance Statement rather than a Statement on Internal Control.

⁸ *BIS Annual Report and Accounts – Consolidated Accounts*, <http://www.bis.gov.uk/assets/biscore/corporate/docs/b/11-p102-bis-annual-report-and-accounts-2010-11>

⁹ *BIS Annual Report and Accounts – Financial Overview*

¹⁰ National Audit Office, *Structured Cost Reduction*, www.nao.org.uk/publications/1011/structured_cost_reduction.aspx

¹¹ National Audit Office, *Managing risks in government*, June 2011 http://www.nao.org.uk/publications/1012/managing_risks_in_government.aspx

¹² National Audit Office, *Progress in improving financial management in government*, HC 487, 2010-11, http://www.nao.org.uk/publications/1011/financial_management_in_govt.aspx

¹³ National Audit Office, *Taking the measurement of government performance*, HC 284, 2010-11, http://www.nao.org.uk/publications/1011/government_performance.aspx

¹⁴ *BIS Annual Report and Accounts – Financial Overview*, <http://www.bis.gov.uk/assets/biscore/corporate/docs/b/11-p102-bis-annual-report-and-accounts-2010-11>

- delivery of £836 million of in-year savings as a contribution to the Emergency Budget announcement in June 2010;
- reducing the administration budget for the Department, including Partner Organisations, with an 11 per cent reduction in 2010-11; and
- as with all departments, implementing new controls on marketing and consultancy spending, and a freeze on public sector pay.

21 The 2010 Comprehensive Spending Review (CSR) commits the Department to a further 25 per cent real terms reduction in budget by 2014-15. Over the course of the 2010 CSR period, the Department's total budget is planned to fall from a base of £20.1 billion in 2010-11 to £16.0 billion by 2014-15.¹⁵ The Department plans to manage the reductions in resource spending by reforming Higher and Further Education funding, delivering broadly 65 per cent of total savings; driving efficiencies will deliver around a further 25 per cent (including the closure of partner organisations) and the remainder of savings, around 10 per cent, will come from cancelling lower priority activities.

22 The Department also plans to reinvest an element of these cost reductions into other parts of the business. For example:

- £150 million to leverage significant equity investment and guaranteed lending to small businesses through a continuation of the Enterprise Finance Guarantee scheme;
- increasing funding by £250 million a year by 2014-15 on new adult apprenticeships. The NAO is due to report on Apprenticeships in Winter 2011-12; and
- £200 million a year by 2014-15 to support manufacturing and business development, with a focus on supporting potential high growth companies and the commercialisation of technologies, including funding for an elite network of Research and Development intensive technology and innovation centres.

NAO reports on financial management and efficiency

23 During the last year, our value for money and cross-government reports identified examples of good practice, but also a number of areas where financial management could be improved:

- **Monitoring of financial performance:** Ensuring the financial health and risk to higher education institutions in England is the remit of the Higher Education Funding Council for England (HEFCE) which is a BIS partner organisation. In assessing how well HEFCE is **regulating financial sustainability in Higher Education**,¹⁶ we found that the Council had efficient structured processes in place to sufficiently monitor financial sustainability of higher education institutions and was delivering value for money.
- **Integration of project and financial management:** In March 2011, we published a cross-government report on **Progress in Improving Financial Management within Government**.¹⁷ The report identified that the "Department underestimated the risks of the Customer First Programme that transferred the processing of grants and loans from local authorities to the Student Loans Company. The Department's subsequent monitoring of the Company in 2009, the first year of the Programme, did not pick up sufficiently early the significant failures in the service provided to students. As a result of the failures in the service provided by the Company in 2009, the Department needed to provide the Company with additional operating cost funding in 2010-11."

¹⁵ *Comprehensive Spending Review – Departmental Settlements*, http://cdn.hm-treasury.gov.uk/sr2010_chapter2.pdf

¹⁶ National Audit Office, *Regulating Financial Stability in Higher Education*, http://www.nao.org.uk/publications/1011/financial_sustainability_in_he.aspx

¹⁷ National Audit Office, *Progress in improving Financial Management within Government*, http://www.nao.org.uk/publications/1011/financial_management_in_govt.aspx

NAO financial audit findings

24 The Department's 2010-11 Annual Report and Accounts were certified by the Comptroller and Auditor General (C&AG) with an unqualified opinion; however, the accounts of the following partner organisations were qualified during 2011:

- **Biotechnology and Biological Sciences Research Council (BBSRC) 2009-10:**¹⁸

A 'disagreement' qualification was issued in respect of the BBSRC Accounts due to the omission of a material value of assets and liabilities from the Statements of Financial Position as at 1 April 2008, 31 March 2009, and 31 March 2010. This omission was due to the BBSRC not consolidating the results of two sponsored Institutes, over which it has control, as required by International Financial Reporting Standards.

- **Science and Technology Facilities Council (STFC) 2009-10:**¹⁹

The scope of our opinion on the STFC accounts was limited since insufficient financial information had been maintained for the £26.7 million investment in the Institut Laue-Langevin (ILL) joint venture. As a result we were not able to evaluate whether the requirements of International Financial Reporting Standards had been appropriately applied. The ILL accounts received a qualified opinion from its auditor because the fixed asset valuation was not supported by a robust inventory. Sufficient, appropriate audit evidence was also unavailable to support the corresponding 2008-2009 and 1 April 2008 figures.

- **Skills Funding Agency 2010-11:**²⁰ An adverse opinion was issued on the Skills Funding Agency financial statements since the Skills Funding Agency did not consolidate further education colleges, over which it has control, in its group financial statements as required by International Financial Reporting Standards. In our opinion, this omission had a material effect on all elements in the financial statements and therefore the financial statements did not give a true and fair view of the state of affairs of the Skills Funding Agency and its subsidiaries as at 31 March 2011. Apart from this issue, there were no other matters identified that would have caused the audit opinion on the Skills Funding Agency Accounts to be modified.

25 A key reporting target for central government bodies is to ensure that their statutory accounts are certified by the NAO and laid in Parliament before the Parliamentary summer recess. During the 2010-11 audit cycle of the 43 partner organisations of the Department audited by the NAO, the following eight accounts were not certified before the Parliamentary summer recess:

- Technology Strategy Board 2009-10.
- Technology Strategy Board 2010-11.
- Biotechnology and Biological Sciences Research Council 2010-11.
- Engineering and Physical Sciences Research Council 2010-11.
- Medical Research Council 2010-11.
- Natural Environment Research Council 2010-11.
- Science and Technology Facilities Council 2010-11.
- South East England Development Agency 2010-11.

18 *The C&AG's Report on the BBSRC 2009-10 Annual Report and Accounts* <http://www.bbsrc.ac.uk/publications/accounts/accounts-index.aspx>

19 *The C&AG's Report on the STFC 2009-10 Annual Report and Accounts* <http://www.stfc.ac.uk/Print+Publications/3434.aspx>

20 *The C&AG's Report on the Skills Funding Agency 2010-11 Annual Report and Accounts* http://readingroom.isc.gov.uk/SFA/SkillsFundingAgencyAnnualReportAccounts2010_11_18July2011_V1.pdf

Issues raised in Statements on Internal Control

26 We work with the Department and its sponsored bodies to improve their published Statements on Internal Control. We aim to ensure that the processes by which Statements are produced are robust and that the Statements comply with Treasury guidance.

27 In the Department's **2010-11 Statement on Internal Control**,²¹ whilst it was disclosed that the Department's Director of Internal Audit had concluded that there was "improvement required" to the departmental system of Internal Control, no significant control issues were highlighted. The main risks and issues identified in the Department's Statement on Internal Control were:

- loss of capability, expertise and low staff morale as a result of the restructuring process;
- how to ensure cohesive management of a large portfolio of partner organisations;
- managing the transition of the Regional Development Agencies (RDAs); and
- maintaining effective oversight of the Student Loans Company (SLC) and their delivery of student finance.

28 The Department reports that it is addressing these, with initiatives such as the National Transition Board to overseeing the transfer of RDA responsibilities to successor bodies, and increasing the Department's oversight and support to the SLC.

29 The main issue identified in partner organisation Statements on Internal Control were the difficulties encountered with the implementation of the Research Council Shared Services Centre (SSC) which is intended to deliver a single organisation administrative support service for all UK Research Councils. The NAO is due to report on the introduction of the Shared Service Centre in Autumn 2011.

²¹ *BIS Annual Report and Accounts 2010-11 – Statement on Internal Control*, <http://www.bis.gov.uk/assets/biscore/corporate/docs/b/11-p102-bis-annual-report-and-accounts-2010-11>

Part Three

Use of information

30 Government needs robust, timely information on context, activities, costs, progress against its objectives, and the cost-effectiveness of its activities. It also needs to be able to interpret that information, by reference to trends, expectations, benchmarks and other comparisons, to identify problems and opportunities. Departments need reliable information on which to design and deliver services and monitor quality, be confident about their productivity, and drive continuous improvement.

31 The Coalition Government has pledged, under the transparency agenda, to make more government information available to the public to help improve accountability and deliver economic benefits. In June 2010, the system of Public Service Agreements ended and instead, departments are to be held accountable to the public based on the data they use to manage themselves.

Reporting performance: Annual Reports and Business Plans

32 Each government department now reports its performance against the priorities and objectives set out in its Business Plan. The Plan's transparency section includes performance indicators selected by the department to reflect its key priorities and demonstrate the cost and effectiveness of the public services it is responsible for. These indicators fall broadly into two categories:

- input indicators: a subset of the data gathered by the department on the resources used in delivering services; and
- impact indicators: designed to help the public judge whether departmental policies are having the desired effect.

33 The Plan's structural reform section provides a detailed list of actions and milestones designed to show the steps the department is taking to implement the Government's reform agenda.

34 Departmental progress against indicators is published regularly in a Quarterly Data Summary, most recently in July 2011. The Quarterly Data Summary is designed as a standardised tool for reporting selected performance metrics for each government department, in a way that facilitates comparison across departments where this is appropriate. Data published in the summary can be compared to the previous quarter (April 2011) which will also be the baseline for this data set. The information in the summary has not been audited and the Cabinet Office has said that the accuracy of the data for all departments needs to improve.²² However, the Cabinet Office expects that over time, with improvements in data quality and timeliness, the public will be able to judge the performance of each department in a meaningful and understandable manner. An annual version of this information is expected to be formally laid in Parliament in departments' Annual Reports and Accounts from 2012 onwards.

35 It is too early to comment on Departmental performance reported against the new performance indicators. Through its review of departmental business planning, however, the House of Commons Committee of Public Accounts²³ identified some essential elements to help ensure effective accountability and value for money, including the need for:

- monitoring arrangements which align costs and results for all significant areas of Departmental activity and spending; and
- clear definitions of expected outcomes and standards, rigorous timelines and appropriate strategies to intervene when expectations are not met.

²² <http://www.cabinetoffice.gov.uk/resource-library/business-plan-quarterly-data-summary>

²³ *Departmental Business Planning* (Thirty-seventh Report of Session 2010-12), House of Commons Committee of Public Accounts, May 2011, <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmpubacc/650/650.pdf>

Performance reported by the Department

36 The Department's Business Plan²⁴ sets out nine priorities for delivery:

- Rebalance the economy across sectors.
- Rebalance the economy across regions.
- Safeguard the future of Royal Mail and the Post Office.
- Build an internationally-competitive skills base.
- Support universities, science and research in building a strong, innovative economy.
- Boost enterprise and make this the decade of the entrepreneur.
- Stimulate exports and inward investment.
- Create a positive business environment.
- Protect and empower consumers.

37 The Business Plan also outlines the indicators which the Department believes are most useful to the public in understanding the effectiveness of the Department's policies and reforms in responding to these nine priorities. Input indicators include the funding per student in higher education and the number of businesses assisted through BIS finance schemes. Impact indicators include international comparison of the qualification levels of the working age population in the UK and the ease of doing business in the UK.

38 In the most recently published data on its performance against its Structural Reform Plan Actions²⁵ (August 2011), the Department reported that four actions were overdue with an additional four remaining overdue from previous months and a further action that was delayed due to factors outside the Department's control. The overdue actions for August, which included a consultation on proposals to introduce Further Education loans for the academic year 2013-14, and the running of a procurement process to identify the preferred supplier of the Manufacturing Advisory Service, had been delayed due to extensions to tendering and consultation periods to allow sufficient time for stakeholder responses.²⁶

Testing the reliability of performance data across government

39 Some of the data systems used to report against the new performance indicators will be the same as those used by the Department to report against Public Service Agreements. In July 2010, we published our Sixth Validation Compendium Report²⁷ on our work to test the systems used to report against Public Service Agreements. Our report found that the quality of data systems had improved but a third of the systems examined needed strengthening to improve controls or transparency and 10 per cent of systems were not fit for purpose.

40 Over the next three years we will complete work to validate the data systems underpinning the Departmental business plans and other key management information.

²⁴ *Department for Business, Innovation and Skills Business Plan 2011-15* <http://www.bis.gov.uk/about/business-plan>

²⁵ The performance data has not been audited.

²⁶ *BIS Structural Reform Plan Milestone Monthly Implementation Updates*, <http://www.bis.gov.uk/about/business-plan/monthly-performance-updates>

²⁷ National Audit Office, *Taking the measure of government performance* www.nao.org.uk/publications/1011/government_performance.aspx

Use of information by the Department

41 A number of NAO and Select Committee Reports have highlighted issues with the use of information within the Department:

- **Risk Management:** In June 2011, we published a report on **Managing Risks in Central Government**²⁸ which focused on the culture, value for money and the benefits of risk management. Overall our findings showed there had been improvements in the processes which underpin risk management. The challenge provided by Department's Management Board was highlighted as good practice since its members had been proactive in "requesting changes to the format and timing of reported information so that the risk management information is easier to understand and facilitates a full discussion of priority risks at meetings."
- **Understanding the costs and benefits of regulation:** Our report on **Delivering Regulatory Reform**²⁹ found that with regard to understanding the impact of regulation on business "the Better Regulation Executive and departments understand the issues of most concern to businesses, but do not have adequate sight of the totality of regulation faced by businesses. There have also been systematic weaknesses in estimating the costs and benefits of individual regulations and little priority to reviewing impacts once regulation is implemented."
- **Information on Consumer Harm:** The Department has attempted to strengthen regional working through establishing a regional intelligence network, to help identify consumer harm that occurs across local authority boundaries and strengthen the use of intelligence and risk assessment within consumer law enforcement work. In our report on **Protecting Consumers**,³⁰ we concluded that it is impossible for policymakers to ensure that resources are being prioritised appropriately because analyses of levels of consumer harm are incomplete.
- **Impact Assessments:** The Regulatory Policy Committee (RPC) was established to provide external and independent challenge on the evidence and analysis, presented in Impact Assessments, supporting the development of new regulatory measures proposed by the Government. In the RPC's latest **Independent report on the analysis supporting regulatory proposals**³¹ covering the 31 Impact Assessments (IAs) for the Department for which an opinion was issued, 77 per cent (24) were considered fit for purpose, higher than the cross-government average of 69 per cent. Seven of the impact assessments (23 per cent) were rated as not fit for purpose.

28 National Audit Office, *Managing Risks in Government*, http://www.nao.org.uk/guidance__good_practice/audit_of_financial_statements.aspx

29 National Audit Office, *Delivering Regulatory Reform*, http://www.nao.org.uk/publications/1011/delivering_regulatory_reform.aspx

30 National Audit Office, *Protecting Consumers*, http://www.nao.org.uk/publications/1012/protecting_consumers.aspx

31 *RPC Independent report on the analysis supporting regulatory proposals*, <http://regulatorypolicycommittee.independent.gov.uk/wp-content/uploads/2011/07/Rating-Regulation-July-2011-FINAL-two-blank-pages.pdf>

Part Four

Service delivery

42 Public services are different in the ways they are delivered but their quality and cost-effectiveness depends on a number of common minimum requirements. For example, service delivery requires a well thought-out delivery model, sound programme and project management, strong commercial skills, mature process management and a real understanding of customer needs. Many of our reports to Parliament cover these issues. We summarise below some of this work, organised by key areas of the Department's work.

43 A key aspect of improving the value for money and service provision of the Department is to evaluate the cost-effectiveness and service delivery of key services. Over the last year, our value for money work has focussed on a number of key challenges facing the Department. Our work on the delivery of the Department's programmes has identified areas where improvements have been made and where more needs to be done.

44 Support for Students in Higher Education

– Delivery of grants and loans to Higher Education students in England was transferred from local authorities to the Student Loans Company (SLC) between 2009 and 2011, under the Customer First Programme. The aim of this programme was to improve customer service (through faster processing and greater consistency); achieve financial savings; and improve governance. Our report on the **Customer First Programme**³² found that the SLC had made slow progress in processing applications, with only 46 per cent fully processed by the start of term. The Department and the SLC had underestimated the challenges in centralising this service and neither the Department's monitoring of the SLC nor the SLC Board's oversight, was effective. In December 2010, based on an Updating

Memorandum from the Department,³³ the Public Accounts Committee revisited the programme and found that although performance had improved, the rate of improvement had been disappointing. Over two-thirds (69 per cent) of applications from new students were fully processed by the start of term in 2010 and the contact centre had outperformed its targets for answering calls. A quarter (26 per cent) of applications, however, were not sufficiently processed for students to receive even an interim payment by the start of the first term, which was only a limited improvement on the 34 per cent of applications unprocessed in 2009.

45 Better Regulation and Regulatory Reform:

One of the Department's nine priorities for delivery is to create a positive business environment, of which a key aspect is reducing regulation. In our **Business Perceptions Survey 2010**³⁴ on regulation – three in five businesses felt well-informed about the laws and regulations that affect them. Businesses felt most informed about Health and Safety law and 58 per cent of businesses responded that they found it easy to comply with regulation specific to their business sector. Despite this, we also found there had been no improvement in perceptions of the burdens posed by regulation and the proportion of businesses feeling that the overall level of regulation is an obstacle to their success, 62 per cent, remains at the same level as 2009.

46 Protect and Empower Consumers: Our report on **Protecting Consumers**,³⁵ a key objective for the Department, found that the system for enforcing consumer law is not delivering value for money as the architecture in place to bring together what is a fragmented delivery landscape is not functioning properly. The cost of harm to consumers that needs to be tackled at the regional and national level is not routinely measured, but the data available suggests that it is in excess of £4.8 billion. The Governance arrangements for the consumer law enforcement are not clear and the Department has few direct levers to influence policy delivery.

32 National Audit Office, *The Customer First Programme: Delivery of Student Finance*, http://www.nao.org.uk/publications/0910/student_finance.aspx

33 Public Accounts Committee, *Eighth Report: Customer First Programme*, <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmpubacc/424/42402.htm>

34 National Audit Office, *Business Perceptions Survey*, http://www.nao.org.uk/publications/1011/business_perceptions.aspx

35 National Audit Office, *Protecting Consumers*, http://www.nao.org.uk/publications/1012/protecting_consumers.aspx

Appendix One

The Department's sponsored bodies at 1 April 2011

Executive Agency

Insolvency Service
National Measurement Office UK
UK Space Agency (from 1 April 2011)

Crown Non-Departmental Public Body

Advisory, Conciliation and Arbitration Service
Skills Funding Agency (from 1 April 2010)

Trading Funds

Companies House
Intellectual Property Office

Executive Non-Departmental Public Bodies

Capital for Enterprise Limited
CITB Construction Skills
Competition Commission
Competition Service
Consumer Focus
Design Council
Engineering Construction Industry Training Board
Film Industry Training Board for England and Wales
Higher Education Funding Council for England
Local Better Regulation Office
National Endowment for Science, Technology and Arts
Office for Fair Access
Student Loans Company Ltd
Technology Strategy Board
UK Atomic Energy Authority
UK Commission for Employment and Skills

Regional Development Agencies

Advantage West Midlands
East Midlands Regional Development Agency
East of England Development Agency
North West Development Agency
One North East
South East of England Development Agency
South West of England Development Agency
Yorkshire Forward

Research Councils

Arts and Humanities Research Council
Biotechnology and Biological Sciences Research Council
Economic and Social Research Council
Engineering and Physical Sciences Research Council
Medical Research Council
Natural Environment Research Council
Science and Technology Facilities Council

Public Corporations

British Nuclear Fuels plc
Royal Mail Holdings Plc
British Hallmarking Council

Advisory NDPBs

Council for Science and Technology
Industrial Development Advisory Board
Low Pay Commission

Tribunal NDPBs

Central Arbitration Committee
Competition Appeal Tribunal
Copyright Tribunal
Insolvency Practitioners Tribunal

Local Authority

London Development Agency

Non-ministerial Departments

Export Credit Guarantee Department
Office of Fair Trading
Postcomm

**Government Owned Contractor
Operated Laboratory**

National Physical Laboratory

Other

British Standards Institution
British Shipbuilders
Citizens Advice
Citizens Advice Scotland
Community Interest Companies Regulator
Financial Reporting Council Limited
Information Authority
Learning and Skills Improvement Service
National Council for Graduate Entrepreneurship
RCUK Shared Service Centre
UK Accreditation Service
UFI/Learn Direct

Appendix Two

Results of the Civil Service People Survey 2010

Question scores (% strongly agree or agree)

Civil Service overall

Leadership and managing change

I feel that the department as a whole is managed well	41
Senior Civil Servants in the Department are sufficiently visible	45
I believe the actions of Senior Civil Servants are consistent with the Department's values	39
I believe that the Departmental Board has a clear vision for the future of the Department	35
Overall, I have confidence in the decisions made by the Department's Senior Civil Servants	36
I feel that change is managed well in the Department	27
When changes are made in the Department they are usually for the better	23
The Department keeps me informed about matters that affect me	54
I have the opportunity to contribute my views before decisions are made that affect me	32
I think it is safe to challenge the way things are done in the Department	39

Organisational objectives and purpose

I have a clear understanding of the Department's purpose	84
I have a clear understanding of the Department's objectives	78
I understand how my work contributes to the Department's objectives	80

Department for Business, Innovation and Skills (excluding agencies)	Cabinet Office (excluding agencies)	Department for Communities and Local Government (excluding agencies)	Department for Culture, Media and Sport (excluding agencies)	Ministry of Defence (excluding agencies)	Department for Education	Department of Energy and Climate Change	Department for Environment, Food and Rural Affairs (excluding agencies)	Foreign and Commonwealth Office (excluding agencies)	Department of Health (excluding agencies)	HM Revenue & Customs	HM Treasury (excluding agencies)	Home Office (excluding agencies)	Department for International Development	Ministry of Justice (excluding agencies)	Department for Transport (excluding agencies)	Department for Work and Pensions (including Jobcentre Plus and Pension, Disability and Carers Service)
38	33	27	38	23	55	47	38	58	39	12	56	43	60	38	42	25
50	48	42	62	27	60	68	49	64	51	23	68	50	65	46	53	25
40	38	28	43	28	49	52	37	60	42	19	52	43	56	40	39	23
29	24	19	25	21	40	35	31	49	28	15	35	30	51	32	29	20
33	33	23	33	20	46	49	32	52	37	11	51	39	50	34	32	17
31	20	21	29	16	41	31	29	45	21	11	35	26	41	27	25	22
18	15	13	12	12	23	25	20	37	14	9	32	21	30	24	15	15
58	52	51	68	45	64	69	62	64	52	31	64	57	66	53	57	41
28	32	29	48	22	34	34	34	43	29	16	54	34	44	31	36	19
34	38	32	44	35	41	45	40	47	33	21	57	40	42	37	40	28
75	70	63	71	83	79	89	77	82	74	65	85	82	94	76	68	76
68	58	59	67	77	69	83	71	79	69	62	79	77	91	70	61	73
76	67	67	70	81	73	84	77	83	74	65	77	79	90	73	69	75

Appendix Three

Publications by the NAO on the Department since 2008

Reports on the Department for Business, Innovation and Skills (Since June 2009)

Publication date	Report title	HC number	Parliamentary session
19 July 2011	Skills Funding Agency Accounts 2010-11	HC 1393	2010-11
15 June 2011	Protecting consumers – the system for enforcing consumer law	HC 1087	2010-11
4 April 2011	Biotechnology and Biological Sciences Research Council Accounts 2009-10	HC 585	2010-11
4 March 2011	Regulating financial sustainability in higher education	HC 816	2010-11
8 December 2010	Science and Technology Facilities Council Accounts 2009-10	HC 228	2010-11
2 July 2010	Short guide to the NAO's work on the Department for Business, Innovation and Skills		
30 March 2010	Regenerating the English Regions: Regional Development Agencies' support to physical regeneration projects	HC 214	2009-10
26 March 2010	Department for Business, Innovation and Skills: Support to business during recession	HC 490	2009-10
19 March 2010	The Customer First Programme: Delivery of student finance	HC 296	2009-10
4 February 2010	The Department for Business, Innovation and Skills: Helping over-indebted consumers	HC 292	2009-10
10 December 2009	The Department for Business, Innovation and Skills: Venture capital support to small businesses	HC 23	2009-10

Reports on the Former Department for Innovation, Universities and Skills (Since June 2008)

Publication date	Report title	HC number	Parliamentary session
October 2009	Performance of the Department for Innovation, Universities and Skills, 2008-09, Briefing for the Business, Innovation and Skills Committee		
21 July 2009	Train to Gain: Developing the skills of the workforce	HC 879	2008-09
11 July 2008	Renewing the physical infrastructure of English further education colleges	HC 924	2007-08
25 June 2008	Widening participation in higher education	HC 725	2007-08
6 June 2008	Skills for Life: Progress in Improving Adult Literacy and Numeracy	HC 482	2007-08

Reports on the Former Department for Business, Enterprise and Regulatory Reform (Since June 2008)

7 December 2009	Performance of the Department for Business, Enterprise and Regulatory Reform 2008-09, Briefing for the Business, Innovation and Skills Committee		
5 June 2009	The Department for Business, Enterprise and Regulatory Reform: Oversight of the Post Office Network Change Programme	HC558	2008-09
2 April 2009	UK Trade and Investment: Trade Support	HC297	2008-09
21 November 2008	Performance of the Department for Business, Enterprise and Regulatory Reform 2007-08, briefing for the Business and Enterprise Committee		

Appendix Four

Cross-government NAO reports of relevance to the Department since 2008

Publication date	Report title	HC number	Parliamentary session
6 June 2011	Managing risks in government		
3 March 2011	Progress in improving financial management in government	HC 487	2010-11
17 February 2011	Delivering regulatory reform	HC 758	2010-11
15 October 2010	The NAO's work on regulatory reform		
30 September 2010	NAO Submission to the Review of Offender Learning		
15 July 2010	NAO Business perceptions survey 2010		
22 March 2010	Review of the UK's Competition Landscape		
18 March 2010	Reorganising central Government	HC 452	2009-10
6 November 2009	Commercial skills for complex government projects	HC 962	2008-09
22 October 2009	Complying with Regulation – Business perceptions survey 2009	HC1028	2008-09
16 October 2009	Government cash management	HC 546	2008-09
5 June 2009	Supporting people with autism through adulthood	HC 556	2008-09
26 March 2009	Innovation across central government	HC 12	2008-09
5 February 2009	Assessment of the Capability Review programme	HC 123	2008-09
8 October 2008	The Administration Burdens Reduction Programme, 2008	HC 944	2007-08

Appendix Five

Other sources of information

Reports from the Committee of Public Accounts

Report title	HC number
Departmental Business Planning – Thirty-seventh Report	HC 650
Regulating Sustainability in Higher Education	HC 914
Customer First Programme: Delivery of Student Finance (Student Loans)	HC 424

Other Select Committee Reports

Business, Innovation and Skills Committee – First Report the New Local Enterprise Partnerships: An Initial Assessment	HC 809
Business, Innovation and Skills Committee – Third Report Government Assistance to Industry	HC 561
Regulatory Policy Committee – Third Report An independent report on the analysis supporting regulatory proposals, January–June 2011	

Where to find out more

The National Audit Office website is
www.nao.org.uk

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