National Audit Office

Financial Management in the Department for Communities and Local Government

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 293 Session 2008-2009 | 17 July 2009

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Amyas Morse
Comptroller and Auditor General
National Audit Office

9 July 2009

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Photograph courtesy of Homes and Communities Agency

SUMMARY

1 This Report examines the financial management of the Department for Communities and Local Government which in 2007-08 was responsible for expenditure of £34,365 million. Financial management is the system by which the resources of an organisation's business are directed and controlled to support the organisation's goals. Good financial management is an essential element of strong corporate governance. It forms part of the firm foundations of an organisation, underpinning service quality and improvement, and is the basis of accountability to stakeholders for the stewardship and use of resources. Effective financial management helps an organisation manage its budgets, allocate resources and make decisions supported by an understanding of the relationship between costs and performance; and deliver its services cost effectively.

2 The Department's aim is to create vibrant, diverse and attractive places with strong local economies where people want to live, work and raise their families. It takes the lead across government on: housing supply and affordability; local government and services; cohesive communites; regeneration; and emergency planning and the Fire and Rescue Service.

3 Many of the Department's policies and programmes are delivered through a wide range of local and regional organisations, including local authorities, Regional Development Agencies, Registered Social Landlords, local partnerships and voluntary organisations. The Department also delivers through a number of its own arms length bodies, including the Homes and Communities Agency, the Planning Inspectorate, Urban Development Corporations and the Audit Commission.

4 The Homes and Communities Agency was formed on 1 December 2008 with the bringing together of English Partnerships, the Housing Corporation's investment programme and a number of the Department's investment programmes. At the same time the recent economic downturn has had a significant impact on the Department's ability to deliver against its objectives in respect of housing supply and regeneration, as both housing associations and private sector developers have faced difficulties in raising the funds necessary to support development. The Department has brought forward funding of some £700 million for the cross-government initiative to support the housing market announced in September 2008. The Department is developing a series of strategic frameworks to help it develop effective responses to these major changes in the external environment.

5 This report presents the findings and recommendations from our examination of financial management within the Department for Communities and Local Government. Part 1 of this report sets out how the Department is organised and managed. Part 2 analyses the financial performance of the Department and Part 3 presents our detailed assessment of financial management within the Department against the widely accepted five aspects of good financial management.

Findings

6 The Department has shown commitment to improving financial leadship and governance, but has more work to do to embed it throughout the organsation. The Department appointed a Board level Finance Director in September 2006, although this individual's role has since expanded to encompass a range of other corporate services. The Department has also increased the number of non-executive Board members and enhanced its Audit Committee. It has also appointed qualified accountants as Heads of Finance for each of the Departmental Groups. Over the past eighteen months these Heads of Finance have increased their knowledge and expertise so that they are able to exercise increasing influence over key processes and provide an effective challenge function within the Department.

7 The Department should have more financially trained staff given its size and expenditure. As of June 2008, some 28 per cent of the Department's finance staff were professionally qualified, compared to an average across public sector organisations of 34 per cent. The Department recognises the need to increase the proportion of financially qualified staff within its finance teams and is making improvements in this area. For example, in its May 2009 reorganisation, the Department's central finance team has increased the proportion of its financially qualified staff to almost 40 per cent. In the wider Department, further recruitment and training of staff with financial and business management skills would allow it to better analyse and interpret financial data and manage complex activities.

8 The Department has improved its business planning processes and for 2009-10 budgets were agreed before the start of the financial year. The Spending Reviews determine the Department's overall budget and the spending profile of the major Departmental programmes for the next three years. Financial planning in between Spending Reviews is an annual process generally focussing on managing funding at the margins, such as administration or minor programmes. The Department has made considerable improvements to its annual budgeting process for 2009-10.

9 The quality and analysis of financial information presented in support of investment decisions is variable. The Department has established an Investment Board to advise the main Board on new investment decisions. The Board's assessment processes meet the key requirements of the Treasury's Green Book and Office of Government Commerce Gateway Review Approaches to Appraisal. All investment appraisals submitted to the Investment Board contain some financial information, but the level of this information and the degree to which it is analysed, varies. For example, not all business cases contain a sensitivity analysis of the financial data or a compelling body of economic evidence.

10 The Department's Investment Board processes are not well suited to dealing with situations requiring an urgent response. The processes are relatively new and still developing, but it can currently take six weeks for proposals to be approved by the Investment Board. Furthermore, to date the Board has conducted very few post- and mid-stage reviews of existing projects, although it is now in the process of developing a programme of project reviews that should help address these issues. The Board is also now considering how it can best respond to urgent business needs.

11 The Department has made significant improvements to its internal financial monitoring through the development of its Integrated Performance Report. The Report brings together financial, HR, performance and risk data into one document. This has allowed the non-executive members of the Board to provide a greater level of challenge to the financial information, which has in turn required senior management to acquire a deeper and more complete understanding of the financial information presented.

12 The Integrated Performance Report has strengthened the Department's risk management process. This Report provides an opportunity for risks to be highlighted to the Board alongside programme performance and plans. The Department has made a good start to developing its risk management framework, but needs to ensure that it recognises active and regular management of risk as a key element of all jobs in the organisation. The Department is looking to address this through developing bespoke programme and project management training for staff, which will include a focus on active risk management.

13 The Department does not meet the Treasury's standard to provide in-year reports to the Departmental Board within 10 days of the month end. The Department considers that it is more important to provide accurate and reliable information, and has developed a timetable that allows sufficient time for effective internal challenge and review, and for consistent commentary to be added.

14 The Department cannot accurately report expenditure against its Strategic Objectives or other outcome indicators. The Department can only present notional allocations of financial information by Departmental Strategic Objective, because the expenditure and outcomes of individual programmes may contribute to more than one Departmental Strategic Objective. As a result it cannot easily identify the impact on outcomes of changes in the allocation of resources. The Department recognises the issue, but considers it could only be rectified with major investment that would provide little real benefit for financial decision-making.

15 The Department has suceeded in producing its annual resource accounts before the Parliamentary Summer Recess every year since 2004-05. However, the high turnover of staff responsible for preparing the accounts adversely affected both the timing and quality of the 2007-08 accounts. The Department aspires to publish its Annual Report and its annual resource accounts in a single document in the future.

Overall Financial Management Conclusion

16 The Department is committed to good financial management at senior management and Board level and has introduced processes to improve its financial management systems and the financial capability of its staff. The Department does still have more to do to embed good financial management thoughout the organisation, which is made more challenging by the complex delivery framework within which it operates.

Recommendations

17 We recommend the following actions:

a **The Department still needs to fully assess where it has gaps in its financial and business management skills and bring in new expertise where appropriate**. It needs to build on its existing actions to enhance financial and business management capacity across the organisation, including its intention both to launch a Learning and Development Framework in Summer 2009 to improve arrangements for financial and resource management training, and to increase the proportion of professionally qualified finance staff. We consider that Board level financial challenge would be more effective if delivered by an executive member whose responsibilities were solely or mainly concerned with financial management.

b **The work of the Department's Investment Board is valuable, but could be further developed and improved**. We welcome the Department's intention to develop a fast-track process to consider urgent cases, enhance the consistency of financial analysis by setting minimum information requirements, and develop a process for conducting more post- and mid-stage reviews of existing projects.

c **The Department does not fully understand the linkages between costs and performance as measured by its Public Service Agreements and Departmental Strategic Objectives**. While accepting the Department's reluctance to invest in a major new costing system, it should consider how it might better develop the relationship between funding and performance measures, so that it improves its understanding of the impact of funding decisions on performance and outcomes.

d **The majority of the Department's expenditure is fixed funding allocated to delivery partners and is therefore relatively straightforward to forecast. Line managers' forecasting of more volatile expenditure is less accurate, although in recent years the Department has consistently reported an annual expenditure outturn that is within budget**. The Department should explicitly assess the quality of line managers' forecasting, business and financial management as part of their performance appraisal, in order to encourage improvements in the accuracy of forecasts in future years.

e **The Department does not yet meet the Treasury's standard to provide in-year reports to the Departmental Board within 10 days of the month end**. As the new reporting system beds in, the Department should aim to reduce the time taken to deliver the Integrated Performance Report to the Board. The Department should also encourage senior managers to access the underlying electronic information as soon as it is available to ensure that they have an up to date understanding of the business performance.

f **The Department has made a good start to developing its risk management framework and has risk registers in place, but needs to encourage all staff to understand how active risk management can be used to enhance business performance and to make it a key element of all jobs**. The Department is looking to encourage this process by developing bespoke programme and project management training for staff, as well as by promoting the importance of the half yearly Directors' assurance statements and linking them to an active review of the quality of Divisional risk registers.

PART ONE

Organisation and Activity

Introduction

1.1 The Department for Communities and Local Government is responsible for setting government policy on local government, housing, urban regeneration, planning, and fire and rescue within England. It addresses its strategic priorities through five main programmes.

- Housing Supply and Demand – aims to improve the supply of housing and improve the planning system.
- Tackling Disadvantage – concerned with reviving the most deprived English neighbourhoods, reducing social exclusion and supporting society's most vulnerable groups. This programme includes a wide range of different grant streams, such as the Neighbourhood Renewal Fund, New Deal for Communities and the Supporting People Programme.
- Decent Places to Live – looks to improve the quality of social housing and the quality of streets, parks and town centres so as to create communities where people want to live.
- Development of the English Regions – provides funding to the Regional Development Agencies through their sponsor, the Department for Business, Enterprise and Regulatory Reform.
- Better Local Services – concerned with enabling effective local services and creating better places through new relationships and better governance. This programme includes investment in the Fire and Rescue Service.

1.2 The Department was created on 5 May 2006, primarily from the former Office of the Deputy Prime Minister. In 2006-07 it transferred some £28 billion of Revenue Support Grant to the Department for Education and Skills (now the Department for Children, Schools and Families) for schools funding. In the same year, the Home Office transferred responsibility for race, faith and cohesion policy to the Department, and the former Department for Trade and Industry transferred responsibility for equalities, which resulted in a £68 million net increase in the Department's operating costs. In 2007-08 the Department transferred responsibility for equalities to the new Government Equalities Office, which resulted in a £38 million net decrease in its operating costs.

1.3 On 1 December 2008 the Homes and Communities Agency was created by bringing together English Partnerships, the investment programme of the Housing Corporation and a number of Departmental investment programmes. Responsibility for the delivery of projects accounting for approximately £3 billion will transfer from the Department to the Agency, but with little effect on the Department's overall budget as it will still record the amounts as grant. Only the recipient will change.

Organisation

1.4 The Departmental Board, chaired by the Permanent Secretary and Accounting Officer, provides corporate strategic leadership to the Department and is responsible for delivering the Department's strategic objectives and managing departmental resources. It is made up of the six Directors General, the Director of Strategy and Performance and six non-executive members.

1.5 The Board is supported by three sub-committees in delivering those responsibilties.

- The **Delivery Sub-Committee** is responsible for scrutinising the delivery of the Department's key, high risk delivery programmes, intervening where necessary to provide additional support and resolve problems which may threaten progress.
- The **Audit and Risk Committee** is responsible for assessing and assuring the Department's overall risk management framework and for ensuring financial propriety.
- The **Investment Board** plays a key role in reviewing the business case for all significant new programmes, appraising any subsequent proposed new financial investment and making recommendations to the Board.

1.6 Below the Board, the Department is organised in Director General groups covering:

- Housing and Planning;
- Local Government and Regeneration;
- Thames Gateway and Olympics;
- Communities;
- Finance and Corporate Services; and
- Human Resources and Business Change.

1.7 The Department is only responsible for policy and expenditure in England. The main Department includes the Planning Inspectorate Executive Agency, several small advisory Non-Departmental Public Bodies and two different sets of tribunals. It is also responsible for managing the nine Government Offices; each of which focuses on a specific English region. Furthermore, the Department is responsible for oversight of 17 bodies, each of which operates at arms length from the Department, has its own board with responsibility for financial management and prepares its own accounts. Details of these bodies are set out at Annex B.

Staffing

1.8 The Department employed an average of 5,185 people in 2007-08. As part of the 2004 Comprehensive Spending Review, the Department was set a target of achieving a reduction of 400 full time equivalent posts across the wider Department (including its arms length bodies) by the end of March 2008 against a June 2004 baseline. At least 250 of these were to be headquarters and Government Office civil service posts. The Department met this target and reported a reduction of 1,170 full time equivalent posts at March 2008, of which 605 were headquarters and Government Office posts. As the Department continues to move away from direct service delivery, the challenge will be for it to re-engineer departmental processes in advance of future reductions in number of posts.

Estate

1.9 The Department is based in two leasehold properties in London, with accounts processing carried out at another office located in Hemel Hempstead. The Department also owns the Queen Elizabeth II Conference Centre and Burlington House in London, but has announced plans to dispose of the Conference Centre in due course. Government Office staff occupy leased office accommodation within the nine regions, and the Planning Inspectorate occupies a leased office in Bristol.

Performance

1.10 Parliament has provided the Department with funds in order to allow it to deliver against agreed priorities. Under the Comprehensive Spending Review 2007, the Department is responsible for two of the Government's main priorities, as set out in the following Public Service Agreements:

- to increase long term housing supply and affordability (PSA 20); and
- to build more cohesive, empowered and active communities (PSA 21).

Underpinning these are the Departmental Strategic Objectives, which define its contribution to both the above Public Service Agreements and those led by other government departments, and provide the basis for it to measure and report performance over the current Comprehensive Spending Review period. The Department has six Departmental Strategic Objectives which are:

- to support **local government** that empowers individuals and communities and delivers high quality services efficiently;
- to improve the supply, environmental performance and quality of **housing** that is more responsive to the needs of individuals, communities and the economy;
- to build prosperous communities by improving the **economic performance** of cities, sub-regions and local areas, promoting **regeneration** and **tackling deprivation**;

- to develop communities that are **cohesive, active and resilient to extremism**;
- to provide a more efficient, effective and transparent **planning** system that supports and facilitates sustainable development, including the Government's objectives in relation to housing growth, infrastructure delivery, economic development and climate change; and
- ensuring safer communities by providing the framework for the **Fire and Rescue Service** and other agencies to prevent and respond to emergencies.

1.11 The Department reported its performance against these new Public Service Agreements for the first time in the Autumn Performance Report 2008. Just six months into the Comprehensive Spending Review period the Department is only able to report limited progress. Targets where 50 per cent or more of the indicators are yet to have first time data produced are automatically awarded the rating of 'not yet assessed'. The Department reported 'some progress' against PSA 20 (improving long term housing supply and affordability) and 'strong progress' against DSO 4 (cohesive, active and resilient communities). Athough all other Public Service Agreements and DSOs were 'not yet assessed', the Department has developed means for measuring performance against all targets and has put in place programmes for delivering against these targets.

1.12 In the same report, the Department reported how it performed against the PSA targets set as part of the 2004 Comprehensive Spending Review. Of the Department's ten Public Service Agreements targets set in 2004, two have been transferred to other departments, three have received final assessments (all partly met) and five are still ongoing (four showing slippage and one on course). A table setting out the performance that the Department has reported against its Public Service Agreements is at Annex C.

1.13 The Comptroller and Auditor General is responsible for validating the data systems underpinning the Department's reporting of its performance against these Public Service Agreements. We completed work to validate the data systems underpinning the CSR 2007 Public Service Agreements in 2009. We found the systems underpinning PSA21 (building cohesive, empowered and active communities) were broadly fit for purpose. Those relating to PSA20 were broadly appropriate but did need some strengthening. A table setting out the findings of our review is at Annex C.

1.14 The recent economic downturn has had a significant impact on the Department's ability to deliver against its targets in respect of housing supply and regeneration. In particular, the economic conditions are impacting on the ability of developers and registered social landlords to raise private sector funding to either start new development activity or to comply with existing development agreements.

PART TWO

Financial Performance

Introduction

2.1 This part of the report looks at the funding of the Department for Communities and Local Government, how it spends its money and the Department's financial management of its running costs.

Financial Performance

2.2 In 2007-08 the Department received £33,400 million of funding voted by Parliament; and £547 million from the European Commission, mainly in respect of the European Regional Development Fund, where the Department is responsible for managing the programme in England. The Department also receives money from other government departments to finance shared programmes; for example, it received funding of £1,090 million for Local Area Agreements from the Home Office, the Departments for Children, Schools and Families, Work and Pensions, and Environment, Food and Rural Affairs in 2007-08 for onward distribution to local authorities.

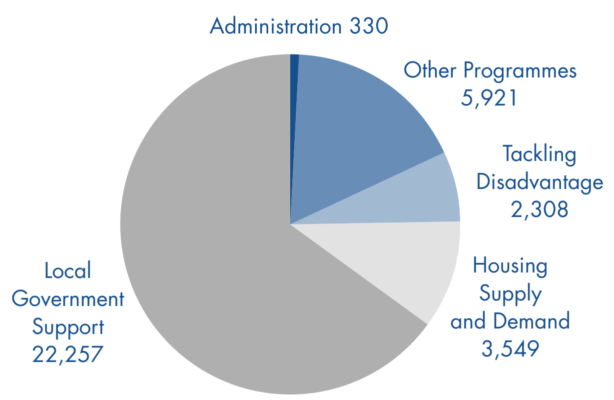
2.3 In 2007-08 the Department's net resource outturn was £34,365 million, £34,035 million of which was spent on supporting local government and the Department's five main programmes. The remaining £330 million was spent on its own administration **(Figure 1)**.

2.4 The Department has a complex delivery chain and most of its policies are implemented and delivered by other bodies. **Figure 2 overleaf** illustrates the main flows of funding in 2007-08 from the Department to its delivery partners, and illustrates that direct responsibility for delivery and implementation of many of the Department's responsibilities rests with a range of national, regional and local bodies that are outside the Department's direct control (see Annex D).

2.5 The Department's budget and expenditure is divided into revenue and capital components. 79 per cent of the Department's spending in 2007-08 was revenue, and increased by an average of 12 per cent per annum from £16.3 billion in 2003-04 to £29.0 billion in 2007-08. The majority of this expenditure is in the form of grant-in-aid to non-departmental public bodies and grants to local authorities and others.

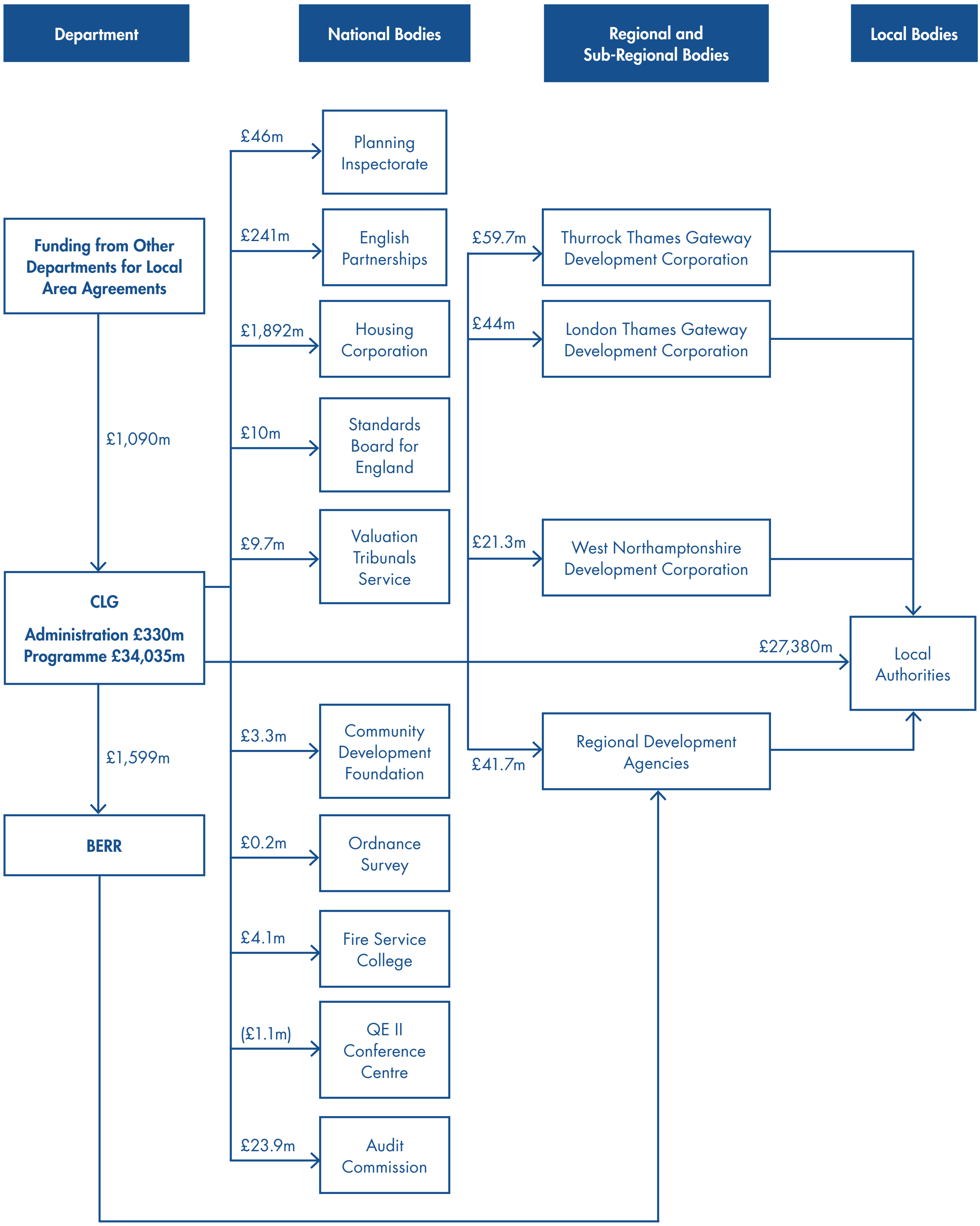
2.6 The Department's capital expenditure has also increased steadily: by 4.9 per cent per annum from £4.8 billion in 2003-04 to £6.1 billion in 2007-08. This consists of capital spending by non-departmental public bodies and capital grants to local authorities and others, with a small element (£41 million in 2007-08) being spent on fixed asset additions within the Department.

1 The Department's spending by main programme for 2007-08 (£m)



Source: National Audit Office

2 Net Expenditure analysed by Recipient 2007-08



Source: National Audit Office

2.7 The C&AG has given clear audit opinions on the Department's accounts and most of the central government bodies that it funds in the last 5 years. In his opinion the financial statements give a true and fair view of the Department's affairs and the Department has applied income and expenditure for the purposes intended by Parliament.

2.8 The key financial management risks facing the Department arise from a variety of sources. The complex delivery chains underlying many of the Department's programmes and policies and its view of the importance of encouraging local decision-making, means that the Department necessarily has limited levers to manage how local delivery bodies, especially local authorities, use Departmental funds.

2.9 At the same time, changes in the economic environment have already impacted on the means available to the Department to achieve its house building and regeneration policy objectives. The Department, and the new Homes and Communities Agency, are trying to develop new and innovative models to engage the private sector and invigorate the housing and house building markets. The Department has limited resources available, particularly because, in response to the 2007 Comprehensive Spending Review settlement, it is required to generate annual net cash-releasing savings of over £880 million by 2010-11.

2.10 While the Department has made progress in improving financial management leadership, there remains a need for greater financial skills across all budget holders within the Department. Taken together, these present significant risks to the Department as it tries to improve the skill set of its staff, improve controls and develop new and innovative policies and programmes against a background of reducing budgets and increasing economic pressures.

Administration of European Regional Development Fund expenditure

2.11 The Department is responsible for the management and administration of European Regional Development Fund expenditure in England. Managing European funds remains a particular challenge for the Department. In March 2008, the European Commission formally informed the Department that it would not reimburse the Department some €25 million in respect of European Regional Development Fund monies for the 2000-06 programme that the Department had already paid over to final recipients in the North West, because of the Department's failure to provide satisfactory assurances that the money had been spent in accordance with European Commission regulations. In particular, the Commission considered that the Department had failed to carry out sufficient management checks of projects, and there were deficiencies in the recording and reporting of the results and in the measures taken to follow up identified discrepancies.

2.12 During 2007-08 the Commission also reported on the results of its review of some elements of the 1997-99 programme and further investigations into the 2000-06 programme, and estimated the total amount of reimbursement at risk to be some £230 million. The Department believes that it is progressively addressing the Commission's concerns and that the level of financial correction that the Commission will eventually impose will be far less than this amount. This is borne out by recent experience where, in the case of the 1997-99 programme, the Commission recently imposed a financial correction of some £23.5 million while some £108 million had originally been identified as being at risk. Commission decisions are still awaited in respect of their remaining concerns on aspects of the 2000-06 programme.

2.13 The management of the 1997-99 and 2000-06 European Regional Development Fund programmes illustrate some past weaknesses in the Department's risk management. The failure to properly manage the risks in this programme has meant that the Department has not received all the reimbursement it expected from the European Commission and has had to meet funding shortfalls itself.

Support to Local Authorities

2.14 Total net current expenditure by the 457 local authorities in England (including the 38 Police Authorities and 31 Fire Authorities) was estimated to be £108,249 million in 2007-08 compared with £103,341 million in 2006-07 (see Annex E). Local Council Tax financed £23,608 million of that expenditure in 2007-08, with the majority of the balance being financed by grants from a range of Government Departments.

2.15 The main element of the support provided by the Department for Communities and Local Government was in the form of Revenue Support Grant and redistributed National Non-Domestic Rates, which totalled £22,257 million in 2007-08. These are formula-based grants and, together with principal formula Police Grant, make up the annual Local Government Finance Settlement which is approved by Parliament. This annual determination of formula grant sets out the amounts to be paid to local authorities to finance their revenue expenditure, which is primarily the staff and other costs of running local authority services. There are few restrictions on how local authorities can spend this money.

2.16 Other government departments also provide a significant level of funding direct to local authorities. The major contributors are the Department for Children, Schools and Families, which provides funding for schools, and the Home Office, which funds Police Authorities.

2.17 In addition, the Department provides a number of direct grants to local authorities in respect of specific initiatives such as the Working Neighbourhood Fund and Stronger Safer Communities grant, or to support government priorities such as housing. Such grants totalled £6,417 million in 2007-08. Since the start of 2008-09 the Department has consolidated Local Area Agreement funding with many of these specific grants into Area Based Grants to local authorities. Area Based Grants are made up of a range of funding streams from a number of contributing departments (£4 billion in 2008-09). As well as being a contributor, the Department is responsible for receiving other departments' contributions and then making the agreed payments to the local authorities. Area Based Grants are designed to allow local authorities considerable flexibility over how they use the Grants, so the Department places few restrictions on their use and allocates them directly to local authorities as additional revenue funding. Local authorities are free to use this funding as they see fit to support the delivery of local, regional and national priorities in their areas.

2.18 While the new regime is likely to be easier to administer than the previous multiplicity of specific grants, it does make it more difficult for contributing departments to demonstrate a link between the funding they provide and the outcomes achieved. Being able to demonstrate this connection will be a major challenge for all contributing departments over the coming years.

2.19 Until April 2008 the Department relied largely on Best Value Performance Indicators to monitor local authority performance. Those indicators have now been replaced by a new national indicator set, which provides a link between national and local priorities. Each national indicator is linked to a PSA target or DSO, and the Department intends that this national indicator set will provide the only measures against which it will measure the outcomes and outputs of local government.

2.20 In more general terms, the Department also relies on the Audit Commission's Comprehensive Performance Assessment process to reach judgments about the performance of local authorities. These assessments not only consider performance against indicators, but also look at corporate capacity and stakeholder views. From April 2009, this process will be replaced by Comprehensive Area Assessments, which aim to look at how local public services are delivered by local authorities and their partners.

Other Programme Activity

2.21 While grants to local authorities form by far the largest element of the Department's programme expenditure, the Department also delivers programmes through arms length bodies. This spending includes direct grant-in-aid paid to its own Non-Departmental Public Bodies (NDPBs) such as the Homes and Communities Agency, as well as contributions to the Department for Business, Enterprise and Regulatory Reform for onward payment to the Regional Development Agencies. In 2007-08 the Department provided some £3,977 million to support the activities of arms length bodies. This amount will grow in 2008-09, as the Department transfers more of its own programme activity to the Homes and Communities Agency.

2.22 The Department retains some programme expenditure for direct use by the core Department. It includes the cost of running the Planning Inspectorate as well as revenue costs associated with the development of new resilience assets for the Fire Services. The New Dimension programme has helped provide the Fire and Rescue Services with the specialist equipment and training it needs to respond to terrorist and other major catastrophic incidents. However, funding uncertainty and poor programme, project and financial management in the early days of the programme resulted in delays in introducing the equipment and significant cost overruns. Improvements in programme and financial management have since been made.[1]

Administration

2.23 Of its £330 million administration costs in 2007-08, the Department spent £193 million directly on staff costs. Other staff costs, relating to organisations such as the Planning Inspectorate, are included in the Department's programme budget. When these amounts are added the total staff costs for 2008-09 are £254 million. The average total cost per member of staff has increased by 50 per cent over the past five years from £32,600 in 2003-04 to £49,500 in 2007-08, which represents an approximate eight per cent per annum increase **(see Figure 3)**. The Department has made a conscious decision to increase the number of staff with specialist skills and reduce the number of staff at lower grades.

1 New Dimension - Enhancing the Fire and Rescue Services' capacity to respond to terrorist and other large-scale incidents HC 1050, Parliamentary Session 2007-08.

2.24 In 2007-08 the Department spent a further £61 million in accommodation costs, with the remaining £76 million made up largely of IT expenditure, operating lease charges and legal, professional and consultancy support.

Efficiency

2.25 The Department reported that it met all efficiency targets that it was set in the 2004 Spending Review, reporting gross annual efficiency gains of £1,444 million against the central Department target of £620 million. The majority of these efficiency gains came from delivery partners, with the Department itself delivering efficiency gains of £17.2 million on its own administration, against a planned delivery of £25 million. It also reported gross annual efficiency gains of £1,167 million across the social housing sector against a target of £835 million and gross annual efficiency gains of £9,030 million across the whole of local government against a target of £6,450 million. These figures have not been subject to any external validation.

2.26 For the three year Comprehensive Spending Review period starting in 2008, the Department is required to make five per cent savings each year on administration spending. The Department has met this target for 2008-09 and has implemented further changes to its administration functions, including further reductions in staff levels, to ensure it continues to deliver savings.

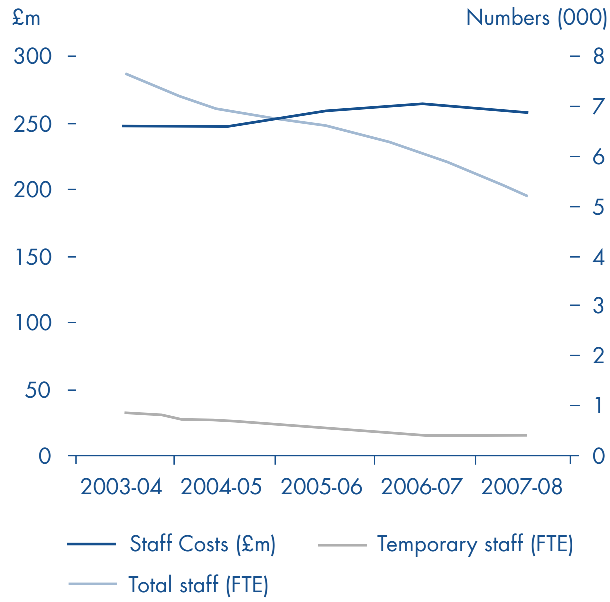
Departmental Assets

2.27 The Department is primarily a funding department and has few assets. Fixed assets as at 31 March 2008 totalled £233 million, and included £45 million in investments (largely government's investment in the Department's Trading Funds – Ordnance Survey, the Fire Service College and the Queen Elizabeth II Conference Centre), £33 million of land and buildings (primarily the Queen Elizabeth II Conference Centre and Burlington House), £37 million of information technology assets, and £118 million of civil resilience assets, which will be transferred to local fire and rescue services in due course.

Expenditure against Estimates

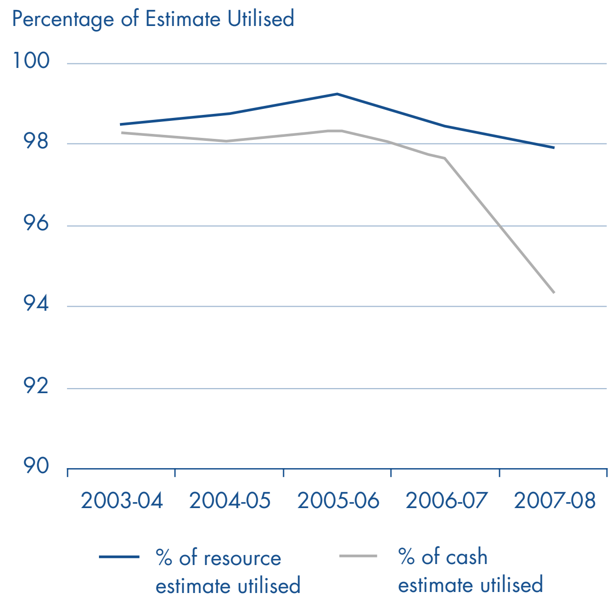
2.28 Over the last five years, the Department's expenditure outturn has been within 1 to 2 per cent of the budget voted to it by Parliament **(Figure 4)**. While Departmental underspends can reflect the results of unforseen efficiencies and good demand management, they can also arise as a result of weaknesses in forecasting. While the Department's variances are small in percentage terms, they represent large sums of money. For example, in 2007-08 the Department recorded a 2.1 per cent resource underspend, which represented an underspend of £722 million. The Department also underspent its cash budget by almost £2 billion in 2007-08.

3 Staff Costs and Numbers



Source: CLG/ODPM Resource Accounts

4 Proportion of annual estimate utilised



Source: CLG/ODPM Resource Accounts, Statement of Parliamentary Supply

2.29 For the last three years the main areas of underspend related to partner organisations, such as the Department's arms length bodies or local authorities, where the Department is necessarily reliant on information provided by others and has limited direct control. While the Department does challenge the bids and spending plans of its NDPBs, their spending profiles are typically end-loaded. NDPBs, therefore, have difficulties in accurately forecasting underspends until late in the financial year, which gives the Department little time to reallocate resources. For example, in 2007-08 the Housing Corporation spent £233 million less than they expected, and some local authorities failed to meet their public service agreement targets thereby forfeiting some £129 million. The level of the 2007-08 underspend was further increased by some problems with the timing of expenditure around the year end. For example, all parties expected Manchester City Council to transfer its housing stock to a Registered Social Landlord before 31 March 2008, but the transfer eventually took place after the year end, leading to a £105 million underspend by the Department.

Expenditure against Cash Estimates

2.30 The Department also underspent its cash budget by 5.6 per cent in 2007-08, or almost £2 billion. This was mainly because cash was not disbursed within the timeframe originally envisaged, although in some cases the Department had little control over the timing of payments. For example, in addition to the cash impact of the problems set out in paragraph 2.29, a further £700 million of cash was underspent because the Department drew down the cash to support a housing stock transfer in Liverpool before 31 March 2008. While the transfer itself took place on 31 March 2008, the cash did not need to be transferred until April 2008.

Debtors and Creditors

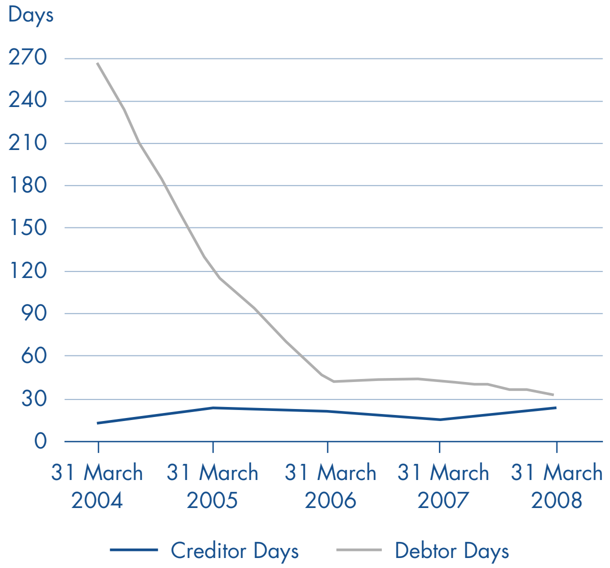
2.31 The Department has considerably improved its credit control since 2003-04. The time taken to receive amounts owed has decreased from 264 days in 2003-04 to 32 days in 2007-08 **(see Figure 5)**.

2.32 The average number of days that it takes the Department to pay amounts due (creditor days) has remained fairly constant over the past five years (24 days in 2007-08). The Department has continued to miss its target of settling 98 per cent of payments within 30 days, and in 2007-08 it only paid 92.9 per cent of invoices on time, compared to 95.4 per cent in 2006-07 and 98.1 per cent in 2005-06. This indicates that the Department has a problem in paying almost one in ten invoices within the 30 day target. On 8 October 2008 the Prime Minister announced that Government departments will pay small and medium sized businesses within 10 days; preliminary indications suggest that the Department is making good progress on meeting this target.

End Year Flexibility

2.33 Government Departments may, with the permission of the Treasury, carry forward unspent resources into the next year through the system of End Year Flexibility. Over the past five years the Department has carried forward a fairly constant proportion of its annual budget as End Year Flexibility for both revenue (approximately 1 per cent per annum – £440 million in 2007-08) and capital (approximately 12 per cent per annum – £291 million in 2007-08). These amounts come from across the Department's activities, but predominantly relate to underspends in the support for housing and local government. As a result the Department's cumulative End Year Flexibility increased from £731 million in 2003-04 to £1,088 million in 2007-08. £796 million of this related to capital and £292 million related to revenue **(Figure 6)**. While the Department considers this will provide a potentially useful source of funds to invest in projects to support the Government's new operational efficiency programme, the increasing level of the End Year Flexibility, along with the annual underspends, suggests that the Department needs to make improvements to its forecasting.

5 Liquidity: Creditor and Debtor Days



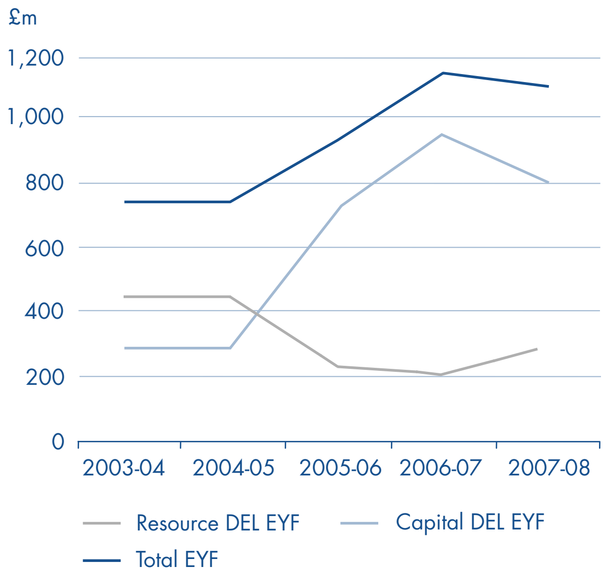
Source: CLG/ODPM Resource Accounts

NOTES

Normal range of creditors is between £6 million and £8 million.

Debtors has decreased from £24 million to £4 million at a rate mirroring the graph above.

6 Cumulative End Year Flexibility



Source: Public Expenditure Outturn White Papers 2004-2008

PART THREE

Financial management

Introduction

3.1 Good financial management helps an organisation manage its budgets; manage the financial risks to the organisation; allocate resources and make decisions supported by an understanding of the relationship between costs and performance; and deliver its services cost effectively. Good financial management is, therefore, key in enabling the Department to meet its responsibilities for protecting the public, while also delivering value for money for taxpayers.

3.2 Financial management by the Department is complicated by the need to rely on a range of organisations often far removed from it, through complex chains of accountability. The degree of direct influence which the Department can exercise once it has allocated funds is variable. The principles of sound financial management still apply, however, in that the Department has to forecast and budget for future expenditure requirements, monitor how funds are used, and be confident that appropriate standards of financial stewardship are followed throughout the sector for which it has responsibility. This Part of the report assesses the financial management capacity of the Department and the sector against five criteria: financial governance and leadership; financial planning; financial decision-making; financial monitoring and forecasting; financial and operational reporting.

Financial Governance and Leadership

3.3 Good financial governance and leadership is characterised by robust internal control, proper risk management and effective governance arrangements. It requires staff across the Department to have appropriate financial management expertise.

3.4 The primary responsibility for the financial governance of the Department lies with the Permanent Secretary and Accounting Officer, who is advised by the Departmental Board. The Department has made a determined effort to enhance the level of challenge that the Board provides by increasing the number of non-executives from four to six in April 2008. The full Board meets every other month, although monthly financial reports are provided to Board members.

3.5 The Department has recognised that its Audit and Risk Committee is a key driver to improve financial governance and has, therefore, made considerable efforts in the last two years to enhance the role of the Committee, which has become increasingly effective and challenging. The Committee's membership has been changed to ensure it is made up of people who are independent of the Department, and who have sufficient knowledge and experience to properly hold Departmental officials to account. The Committee is chaired by one of the Department's professionally qualified non-executive Board members.

Internal control and risk management

3.6 The Permanent Secretary, as Accounting Officer, has responsibility for maintaining an effective system of internal control to safeguard public funds and the Department's assets. The Department's Directors General, Directors and Deputy Directors, along with the Chief Executives of the Planning Inspectorate and Trading Funds, sign annual and six-monthly assurance statements confirming their effective operation of the internal control systems and highlighting specific risks. Although the Department still faces challenges in getting a complete set of returns, and the statements themselves are still maturing, they do provide assurance to the Permanent Secretary and inform his annual Statement on Internal Control.

3.7 The Department has an established internal risk management process. At a senior level the Departmental Board has set up a Delivery Sub-Committee, which is responsible for reviewing the Board Risk Register and mitigation plans, assessing progress of the Department's major programmes, and scrutinising specific key programmes. The Committee can escalate any risks it identifies to the Board and make recommendations for risks to appear on the Board Risk Register.

3.8 The Department has further work to do to fully embed risk management within the organisation. In particular, it needs to ensure that risks are properly understood and actively managed at programme and project level. Over the past year it has worked to set out and specify the roles and responsibilities for managing risks at different levels in the Department, and is developing a bespoke training programme to enhance project and programme management skills, including risk management, for programme managers and key staff.

Financial Management Skills

3.9 At a working level, the Accounting Officer has delegated responsibility for the management of resources to individual Directors General. These Directors General need to be supported by a cadre of qualified and skilled staff to provide and interpret the financial information necessary for the management of large scale programmes. The Department complied with Treasury guidance and appointed a professionally qualified, Board level Finance Director in September 2006. However, that individual's role has since expanded to encompass a range of other corporate services, and the Department needs to ensure that this does not dilute Board level financial challenge going forward.

3.10 The Department has recognised it needs to do more to improve and develop financial and business management skills throughout the wider Department. Financial skills, in particular, are most necessary in the central finance team and the Local Management Accounting Teams that support individual Directors General. While the Department is working to enhance the financial skills in these teams, it has not yet brought these up to the level required by an organisation of its size and spend. As at June 2008, some 28 per cent of the Department's overall finance staff were professionally qualified against an average of 34 per cent across the public sector. A further 40 per cent were partially qualified. Nevertheless, important efforts are being made in this area. For example, in its May 2009 reorganisation, the Department's central finance team increased the proportion of its financially qualified staff to almost 40 per cent, with a further group of part qualified staff gaining practical experience across the Department. Furthermore, the Department is designing a Learning and Development Framework for launch during the summer of 2009, with the intention of improving its arrangements for providing financial and resource management training throughout the Department.

3.11 In 2007, the Department recognised previous weaknesses in the Local Management Accounting Teams by appointing professionally qualified Heads of Finance to manage each team. While these appointments were a welcome development, it took time for these Heads of Finance to develop the necessary experience, knowledge and expertise to effectively challenge and significantly influence key processes such as budget setting and forecasting. Evidence from 2008-09 indicates that the Heads of Finance have continued to develop their expertise and are providing an increasingly valuable challenge function.

3.12 Furthermore, the Department has a high degree of turnover in some of its key finance teams. For example, the central finance reporting team, which is responsible for producing the Department's formal financial reports, has experienced high staff turnover. While the Department has had a qualified member of staff in charge of this team for the last five years, there have been four incumbents over the last two years.

3.13 The Department recognises the skills deficiency and has initiated a professionalisation agenda to improve the skills of its financial staff. This programme included setting up a Finance Training Scheme to facilitate professional finance training. Although data before March 2008 is not readily available, there are already some indications that this focus on professionalism is having a positive impact, with a reduction in the percentage of unqualified staff in finance functions.

3.14 The Department currently only makes such training available to staff working in finance functions. The Department recognises the need for all its staff to be aware of the importance of financial management and to develop business management skills, and has it written into staff competencies. It does not yet, however, provide sufficient financial training courses to non-finance staff. Work was started to develop an in-house course, but the departure of the individual leading the initiative has led to it being delayed until a new lead can be found.

3.15 The Department has made progress in improving financial management leadership and governance but there is much still to do. In particular, while the action that has been taken to improve the financial skills of finance staff is welcome, there remains a need to enhance business management skills across all staff within the Department.

Financial Planning

3.16 The Department allocates most of its funds to delivery partners, and plans most of its programme expenditure over the three year Spending Review period. The Department has also recently aligned its financing of local government with this three year period so as to provide more certainty for local government in its own financial planning. The Department does have some programmes where it plans beyond the Spending Review period, particularly some capital investment projects and European Regional Development Fund programmes where the European Commission agrees the funding to be provided and spent over an eight year period.

3.17 The Department must therefore plan its future expenditure robustly, whilst maintaining some flexibility to respond to changing priorities. The Department's financial planning systems also need to be streamlined and properly integrated with the Department's strategic and corporate planning processes.

Medium Term Planning

3.18 The starting point for the Department's financial planning is the Comprehensive Spending Review bid and resulting settlement. The Department's senior management consider the last such bid, in 2007, was well managed and that the resulting settlement represented a realistic medium term budget for the Department. It involved a fundamental review of existing and future funding commitments and the Department engaged effectively with delivery partners to try and ensure the bid properly reflected their needs. As well as setting an overall budget for the Department, it also set out the budget and spending profile of all the major Departmental programmes for the three years of the Comprehensive Spending Review period. While this does limit the Department's flexibility to move funding between programmes, it also gives a welcome degree of predictability to the programmes.

Annual Planning

3.19 Between spending reviews the Department goes through an annual budget setting process that focusses on allocating funding at the margins, including administration, civil contingency programmes such as flooding, and minor programmes including some specific ministerial initiatives. The Department acknowledged that 2008-09 budgeting processes took too long, lacked transparency and needed to be further developed. Accordingly, it made considerable improvements to the 2009-10 business planning round.

3.20 For example, in 2008 the Department introduced a system of Quarterly Business Reviews to provide the Board with an opportunity to review both the outcomes of the financial planning process and to identify areas for improvement in the process itself. The Reviews reflect on the decisions taken during the planning process and consider whether the Department is still on course to achieve planned outcomes. Key issues considered in recent Reviews include the strategic direction and prioritisation of administrative resources, the outsourcing of delivery, the creation of the Homes and Communities Agency and the reduction of staff numbers.

3.21 For the 2009-10 business planning process the Board also initiated a series of focussed and detailed reviews, which concluded that the shape of the Department was broadly correct but that there was scope to achieve further cost savings. These reviews, supplemented by the results of the Quarterly Business Reviews, senior management's decision to maintain pay levels but further reduce non-pay costs, as well as savings identified from both the transfer of functions to the Homes and Communities Agency and a reduction in the London estate, were used by the Department to set indicative budgets for 2009-10. Directors were then tasked with drawing up detailed plans within the indicative budgets. Where Directors considered that new priorities or pressures meant that such detailed plans were not feasible, they were required to produce a business case for additional resources signed off by the relevant Director General. About three quarters of Directors were able to draw up plans within their indicative budget. All business cases were subject to review by a Business Planning Board, chaired by the Permanent Secretary, which then made recommendations to the Board.

3.22 Part of the annual budget planning process is to formalise the amounts of grant and grant-in-aid that the Department will pay for the future year. This works well for approximately two thirds of the Department's budget that goes direct to local authorities through support payments. These are mostly formulae based, are typically announced in January for the following financial year and, to allow local authorities to plan ahead with a degree of certainty, the funding allocations are now aligned with the Spending Review period. As a result the Local Government Finance Settlement announced in January 2008 included indicative allocations forward to 2010-11. Such timely allocations have not necessarily been applied to all the Department's own sponsored bodies. Two thirds of them reported that they did not receive formal notification of their 2008-09 budgets until after the start of the financial year, but the Department is now developing a sustainable process to allocate budgets to all sponsored bodies before the beginning of the financial year from 2010-11.

External Pressures

3.23 In setting its annual budgets, the Department has to manage a number of external pressures. In particular the Treasury, as part of the 2007 Comprehensive Spending Review, set the Department challenging efficiency saving targets (5 per cent per annum reduction to the administration budget). The Department considered that the best way to respond to these pressures in 2007-08 was to make substantial reductions of approximately 13 per cent to the budgets of both the Finance & Corporate Services and Human Resources & Business Change groups. For both these groups the main cost is staff, therefore the only practical way to achieve the large savings required was to reduce the number of staff in the Finance and Human Resources areas. There are risks to this strategy, as the Department will now be trying to increase the professionalisation of both these Groups at the same time as reducing staff numbers.

3.24 The current economic downturn is another external pressure on the Department. The need for urgent action to stabilise the housing market has required the Department to bring forward some £700 million of funding from 2010-11 to spend now on new and unplanned programme activity to re-invigorate house building. The Department is aware that this acceleration of expenditure will leave them short of funding in 2010-11 to support their planned programme activity.

Finance for decision-making

3.25 The Department needs to consider how best to allocate resources to achieve its various aims. To do so it needs to have a thorough understanding of the financial implications of policies, programmes and activities. The Department has procedures to ensure that financial implications are considered in decision-making, but its analysis of financial implications is not always sufficiently robust.

3.26 In accordance with its role, a large proportion of the Department's funding is given to local authorities to finance general revenue expenditure. While the Government's new national indicator set that has been developed for local authorities goes some way to linking funding with outcomes, there is no direct link between the two. In the case of its funding of specific initiatives and priorities, the Department has mapped its programmes to its Departmental Strategic Objectives but further work is necessary to link the funding to specific outcomes and outputs. As a result the Department has only a limited ability to link funding decisions to specific outcomes and outputs.

3.27 Key investment decisions are taken by the Department's Board. Since 2006 the Department has tried to ensure that all potential investment decisions have been rigorously challenged and scrutinised before they are considered by the Board. To this end it now delegates the detailed review of proposals to an Investment Board, which considers the value for money and reviews the risks inherent in potential projects, before making recommendations to the Board, which then decides whether to proceed. The Investment Board's role is set out in more detail below.

Investment Board

The Investment Board is chaired by the Director General – Finance and Corporate Services. It reviews major programmes and projects meeting specific criteria to ensure they meet the Department's business needs and provide value for money, and to help project managers meet financial, risk management and delivery needs. The criteria are that the project should;

- i have a whole life cost of over £20million and/or,
- ii be novel or contentious and/or,
- iii carry a high level of risk and/or,
- iv be mission critical.

The Investment Board will report to the main Board with its recommendations on all programmes and projects reviewed.

Source: CLG Annual Report 2007-08, May 2008. Page 11.

3.28 We reviewed a sample of reviews carried out by the Investment Board since its inception in 2006, and found that in the majority of cases the Board was acting in a reactive and post-hoc capacity to programmes that had already started before the Board was set up, or which had already obtained ministerial backing. As the Board's processes become fully embedded, it intends to review all major proposed projects at an early stage in development and before the Department has committed to providing support.

3.29 The Investment Board's assessment processes met the key requirements of the Treasury's Green Book and Office of Government Commerce Gateway Review Approaches to Appraisal. We found that all investment appraisals submitted to the Investment Board contained a consideration of the risks to the proposed investment. The risk analysis for individual projects is taken seriously by the Investment Board, which has initially rejected investments where it considers the risk mitigation had not been robust. All investment appraisals also contained financial information, but the level to which this information was analysed varied. We noted that some of the business cases did not contain sensitivity analysis of financial data or a compelling body of economic evidence. Each appraisal should contain a sensitivity analysis which considers the financial impact of risks to the project, the likelihood of these risks crystallising and the processes that need to be put in place to mitigate those risks.

3.30 Furthermore, the Investment Board mechanism is not yet well suited to situations requiring an urgent response, such as addressing the floods in Summer 2007 or developing responses to reduce the level of house repossessions. Proposals currently take around six weeks to pass through the Investment Board process, and the Board is considering the need for a process to deal with urgent cases.

3.31 The Investment Board rarely undertakes reviews of live on-going projects to determine whether they should continue or should be concluded, and has only carried out a review of a completed project on one occasion so far. The Department recognises that it would be useful to do more post- and mid-stage reviews, and is now in the process of developing a programme of such reviews. The Board has also yet to subject itself to self appraisal, which might be helpful in facilitating continued improvement and development of its processes.

3.32 The Department considers that while the Investment Board currently performs a valuable function, it has the scope to widen its remit to include reviewing the management of key financial risks, the ongoing value for money of existing programmes and to undertake more post-evaluation reviews to consider effectiveness and return on investment.

Financial monitoring and forecasting

3.33 The Department needs to have good quality financial monitoring systems to verify that its resources are being spent as intended and so that it understands its financial position at any time. It should monitor and review its key costs, forecast its financial outturn for the year and assure itself that financial performance is in line with plans. Financial information needs to be integrated with non-financial performance and activity information, to provide a basis for financial forecasts and enable value for money to be monitored.

Financial Monitoring

3.34 The Department has always had a mechanism for reporting financial information to the Board and the wider organisation, but this information lacked some credibility as individual budget managers often did not recognise, or disagreed with, the figures reported or their interpretation. The Board also considered that the information was not presented in a way that allowed proper focus on the implications of the financial information. As a result the Department has developed a new reporting format, which it has used since June 2008. This format is continuing to evolve and needs further work to make it a truly integrated performance report. While the new report does bring together financial, HR, performance and risk data into one document (known as the Integrated Performance Report), each element of the report is currently still prepared as a separate document.

3.35 The financial information in this report is presented in a format compatible with the Department's budget and with which budget holders are familiar and understand. As is usually the case, this format does not, however, directly match the format of the resource accounts. This misalignment is a problem across government and recognised by the Treasury, which has initiated an alignment project to help reduce the reporting requirements and bring about a greater degree of consistency. The Department should explain all significant variances between expenditure and budget in the report, and improve the quality of the explanations provided.

3.36 The Report should better link the financial and performance information. It does include commentary on the Department's performance against Public Service Agreements set in 2007 but does not report on those Agreements that are still extant from the 2004 Comprehensive Spending Review. The Report needs to include performance against these older Agreements. The Report now includes costs by Departmental Strategic Objective, but this is done on a purely allocative basis as many of the Department's programmes contribute to multiple Departmental Strategic Objectives. It is, therefore, difficult to accurately measure the impact of funding decisions and resource changes on the Department's performance and outcomes and, with the increasing prevalence of cross-government working, to recognise the impact that the Department's funding decisions have on wider government performance. The Department considers that this could only be achieved through major investment in a new costing system, which it believes would provide little real benefit in financial information or decision-making.

3.37 Despite the limitations set out above, the new Integrated Performance Report has improved the quality and analysis of the financial information and has allowed the non-executive members of the Board to provide a greater level of challenge to the financial information. The Department should build on this progress by embedding the process of challenge and extending it so that Directors General and Directors constructively challenge each others financial information.

3.38 There are already encouraging signs that this challenge is taking place. The upgrading of the role of Heads of Finance has led to a closer relationship and more frequent and regular discussions between them and their Directors General. In turn the Heads of Finance are able to capture and communicate a more complete and timely picture of the Department's performance and position. For example, in August 2008, close liaison between the management team and the Head of Finance for the Cohesion and Resilience Group identified a likely underspend against the Group's 2008-09 budget allowing the forecast surplus to be reallocated across the Department.

Financial Forecasting

3.39 Effective financial reporting requires accurate information on expenditure to date and precise forecasts of expenditure across the remainder of the financial period. While the Department's information on spending to date is generally accurate, its ability to forecast year end expenditure effectively is more weak. During the last two years the Department's year end outturn has consistently varied by 1 to 2 per cent from its internal forecasts at months 6 and 9.

3.40 The majority of the Department's expenditure is in the form of grants to local authorities, which are set in advance for the year ahead and are therefore relatively easy to forecast in the short term. Our analysis of the Department's management information for 2007-08 found that it consistently forecast an underspend of some 0.75 per cent or £170 million on these payments from the end of the first quarter. However, it did not release this amount during the year or amend the Estimates to reflect this forecast underspend.

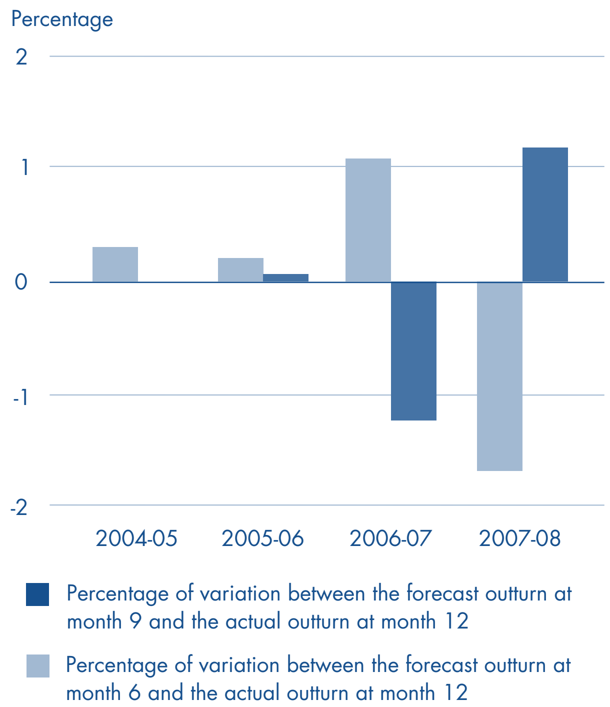
3.41 The Department's expenditure on centrally controlled programmes is more difficult to forecast, and this difficulty is reflected in fluctuations in forecast expenditure throughout 2007-08. The Department suddenly increased the projected underspend for 2007-08 by £650-800 million in February and March 2008, largely as a result of forecast underspends by the Department's delivery partners. The implication is that the Department lacked a complete or accurate forecast before then and by the time it identified this underspend it was too late to reprioritise the available funds effectively. The situation was made worse because the Department had already committed to drawing down £176 million from its previous year's underspend (known as End Year Flexibility). Given the revised level of the projected underspend, the Department did not need to draw down this money.

3.42 **Figure 7** shows the percentage variation between the Department's forecast year-end outturns at the ends of month 6 and month 9 against the actual outturn for each of the last four years. It illustrates variances in the results over the last two years and indicates that the Department needs to improve their in year forecasting by obtaining better financial information at an early stage and more effectively challenging those forecasts. Weak forecasting creates uncertainty and is likely to contribute to the departmental underspend.

Financial and operating reporting

3.43 The Department prepares a monthly Integrated Performance Report, which is issued electronically and is approximately 100 pages long. The opening pages of the Report comprise an Executive Summary, which highlights the key financial, HR, operational and risk information of which Board members need to be aware. The remainder of the Report is drawn from individual Directorate reports, which are linked electronically to the Executive Summary. Board members can drill down and navigate between issues of interest, thereby facilitating a more effective challenge function. The Report includes outturn information in respect of the Department's NDPBs.

7 Variations between in year forecasts and outturn



Source: National Audit Office

3.44 The Department provides the Integrated Performance Report to Executive Board members approximately eleven days after each month end (see Annex F). Following their comments and queries, it is formally issued to all Board members within 19 days of the month end. The Treasury's standard is to provide in-year reports to Departmental Boards within 10 days. The Department has taken a conscious decision to extend its timetable in order to allow sufficient time to check the accuracy of information, challenge and review forecasts and to add internally consistent commentary. However, consolidated management reports for each group are generally available electronically to senior managers 10 days after the month end.

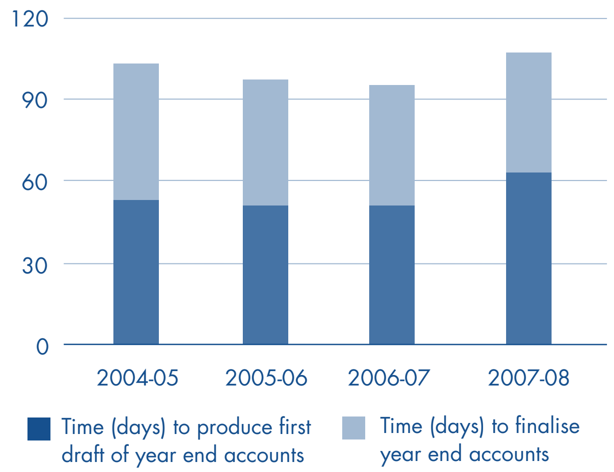
3.45 The Department, like other government departments, reports externally on its performance through its Annual Report and Autumn Performance Report. The Annual Report summarises performance against Public Service Agreements, progress in delivering efficiency savings, spending for the last five years and forecast expenditure for the next three years. The Autumn Performance Report is essentially an interim annual report and focuses on performance against Public Service Agreements and achievement of efficiency savings.

3.46 In 2005 and 2006 the Communities and Local Government Select Committee criticised the Department's Annual Reports for lacking clarity and accessibility. In particular, the Committee commented that the 2006 Annual Report did not establish a clear link between the Department's Public Service Agreements and resource allocation. The Department has therefore made efforts to improve its external reporting of the links between operational and financial performance, and in the 2008 Annual Report it has reported estimated outturn expenditure for its main programmes, ten Public Service Agreement targets and six strategic priorities.

3.47 The Department also produces an annual Resource Account, in which it accounts to Parliament for the use of the resources that were voted in the Supply Estimates. The Department has been able to lay its annual Resource Accounts in the House before the Parliamentary Summer recesss every year since 2004-05. While it did so again for its 2007-08 accounts, the process suffered from high turnover of the key staff responsible for preparing the accounts, which impacted adversely on the quality and timeliness of the draft accounts presented for audit **(Figure 8)**.

3.48 The C&AG audits the annual Resource Accounts and gave an unqualified opinion on the Department's 2007-08 accounts. However, following on from the audit the National Audit Office drew the Accounting Officer's attention to a number of weaknesses in the processes for preparing the accounts, including a lack of ownership and management review of the balances appearing in the financial statements, as well as poor understanding of year on year changes in the same balances. The Department has responded positively to these concerns and the auditors look forward to seeing positive outcomes from the processes put in place to remedy the shortcomings identified.

8 Elapsed time for accounts preparation and finalisation



Source: National Audit Office

ANNEX A Methodology

We employed three principal methodologies in our examination.

- Interviews with officials of the Department, including members of the Board, senior managers, managers with specific financial roles, representatives of finance teams and budget managers.
- Review of documentation, including Board papers and minutes, departmental reports, guidance and reviews by external bodies, and previous National Audit Office research.
- Analysis of secondary data, including the Department's accounts, information on Departmental programmes, and local authority financial data.

The National Audit Office developed its own Financial Management toolkits for reviewing financial management using published methodologies, and these were used when undertaking the review.

ANNEX B

The Communities and Local Government Group

As at 1 December 2008 the Departmental Group consisted of the following bodies:

Bodies consolidated into the Department's accounts

Advisory Non Departmental Public Bodies

Advisory Panel on Beacon Councils
Advisory Panel on Standards for the Planning Inspectorate
Building Regulations Advisory Committee
Community Forum
National Housing and Planning Advice Unit

Executive Agencies

Planning Inspectorate

Tribunals

Rent Assessment Panels
Valuation Tribunals

Bodies producing their own accounts and not consolidated

Executive Non Departmental Public Bodies

Homes and Communities Agency
London Thames Gateway Development Corporation
Thurrock Thames Gateway Development Corporation
West Northamptonshire Development Corporation
Tenant Services Authority
Standards Board for England
Valuation Tribunals Service
Independent Housing Ombudsman Ltd
Leasehold Advisory Service Ltd
Firebuy Ltd
Community Development Foundation

Public Corporations

Audit Commission for Local Authorities in England
Architects Registration Board

Trading Funds

Ordnance Survey
Queen Elizabeth II Conference Centre
Fire Service College

Other

Commission for Local Administration

Individual local government bodies and Fire Service Authorities are audited by external auditors appointed by the Audit Commission.

ANNEX C

Departmental Performance against 2004 Public Service Agreements

Summary of the Department's overall reported performance against its SR 2004 Public Service Agreement Targets

Public Service Agreement target		Annual Report 2007	Autumn Performance Report 2007	Annual Report 2008	Autumn Performance Report 2008
PSA 1	Neighbourhood Renewal	On Course	Slippage	Slippage	Slippage
PSA 2	Regional Economic Performance[1]	On Course	On Course	Slippage	n/a
PSA 3	Fire and Rescue Services	On Course to partly meet	Slippage	Slippage	Slippage
PSA 4	Local Government	On Course	On Course	On Course	Partly met
PSA 5	Housing Supply	On Course	On Course	On Course	On Course
PSA 6	Planning	On Course	Slippage	Not Met	Partly met
PSA 7	Decent Homes	Slippage	Slippage	Slippage	Slippage
PSA 8	Liveability	On Course	Slippage	Slippage	Slippage
PSA 9	Gender Equality[2]	n/a	n/a	n/a	n/a
PSA 10	Race Equality and Community Cohesion	Slippage	Slippage	Not Met	Partly met

NOTES

1 This target is now being reported by the Department for Business, Enterprise and Regulatory Reform.

2 Responsibility for this target transferred to the Government Equalities Office in July 2007.

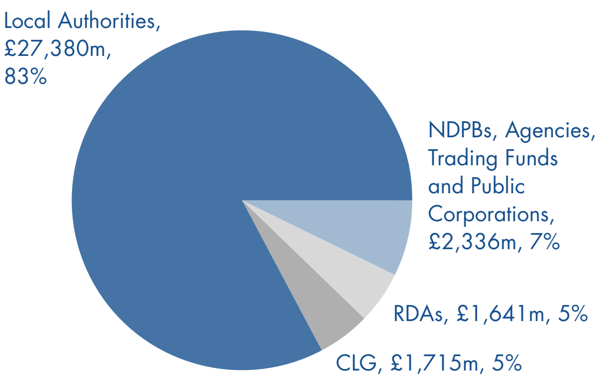
Summary of the National Audit Office's review of data systems underpinning the CSR 2007 Public Service Agreement Targets

Public Service Agreement target	Indicator	Data system rating
PSA 20: Increase long term housing supply and affordability	i	Broadly appropriate but systems need some strengthening
	ii	Fit for purpose
	iii	Broadly appropriate but systems need some strengthening
	iv	Fit for purpose
	v	Not established
	vi	Broadly appropriate but systems need some strengthening
PSA 21: Build more cohesive, empowered and active communities	i	Fit for purpose
	ii	Fit for purpose
	iii	Fit for purpose
	iv	Fit for purpose
	v	Fit for purpose
	vi	Fit for purpose

ANNEX D

Distribution of Departmental Funds to Third Parties

The vast majority of the Department's expenditure is in the form of grants to local authorities; either general grants such as Revenue Support Grant, to support local authority expenditure, or specific grants, such as Area Based Grants, to meet particular policy objectives.



Source: Figure 1, 2007-08 Resource Account.

NOTE

2007-08 expenditure analysed by recipient of CLG funding for delivery of the Department's objectives.

ANNEX E

Local Authority expenditure by service

	Net current expenditure 2006-07 £m	Net current expenditure 2007-08 £m
Education	37,941	40,135
Highways and transport	5,316	5,636
Social care	18,108	18,587
Housing	2,374	2,418
Cultural	3,129	3,188
Environmental	4,524	4,832
Planning and development	2,005	2,119
Police	11,542	11,704
Fire and rescue	2,193	2,233
Courts	62	70
Central services	3,430	3,541
Other services	128	360
Mandatory rent allowances and rebates	12,589	13,426
Total net current expenditure	**103,341**	**108,249**

Source: Statistical Release - Local authority revenue expenditure and financing England: 2007-08 Final Outturn, 28 November 2008.

ANNEX F

Integrated Performance Report production timetable

Working day	Activity/Event	Completed by
4	Early look at variances	HoFs
4 to 6	Full Year Forecast discussed with Deputy Directors and fine tuned – exception basis as appropriate	HoFs
4	Emerging issues meeting between all key players	
6	Commentary to P&R on material variances on admin & programme spend	HoFs
7	Report tables circulated for final verification	P&R
7	Business Intelligence reports on YTD actual and FY Forecast available, including workbooks data	HoFs
7 to 8	Review of Full Year Forecast and reporting of material errors on SAP to P&R	HoFs
7 to 8	Management Reports discussed with Deputy Directors & Directors	HoFs
9	Final figures agreed. These then feed into the DG packs and the IPR	P&R
9 to 10	FD review of draft DG packs and overall position simultaneously	HoFs and others
10	Consolidate Management Reports (DG Packs) for the Group issued to DG and Directors	HoFs
10 to 12	Heads of Finance discuss and agree DG Packs with DG and feedback to P&R	HoFs
11	Finance, HR and Delivery elements of the IPR completed	Finance, HR & Delivery
10 to 13	Meeting between DG Finance; FD: DD-P&R; DD-FAD; and HoFs	
12	IPR Executive Commentary 1st draft	
	IPR consolidated. Commentary circulated widely for comments	Finance
13	IPR circulated for comments	
	IPR cleared by DGs	Finance, HR & Delivery
19	Board Paper issued to Board	

Planning & Reporting (P&R) activity · Heads of Finance activity · Finance Division activity

GLOSSARY

Annually Managed Expenditure (AME)	Expenditure which cannot reasonably be subject to firm multi-year limits.
Appropriations in Aid (A-in-A)	Non-tax receipts arising from and incidental to the ordinary business of a Government Department, which have been authorised, up to the amount specified in the Estimate, as funds available to meet expenditure, which can be retained.
Area Based Grants (ABG)	A general grant providing additional revenue funding to areas according to specific policy criteria. The difference between ABG and Revenue Support Grant is that ABG is allocated according to specific policy criteria rather than general formulae. Allocations of ABG, published along with the local government finance settlement, may be increased to address new policy issues arising during the settlement period.
Comprehensive Spending Review (CSR)	Sets Departmental spending plans for three years. This process was started in the 1998 Comprehensive Spending Review, which was a comprehensive review of Departmental aims and objectives alongside a zero-based analysis of each spending programme, to determine the best way of delivering the Government's objectives. The 1998 CSR introduced Public Service Agreements (PSAs) and DEL/ AME. Successive Spending Reviews in 2000, 2002 and 2004 have continued setting plans for departments. Rather than hold a spending review in line with the two year cycle in 2006 the review was not held and a Comprehensive Review was held in 2007 instead (CSR07). Allocations for 2007-08 were held to the agreed figures already announced by the 2004 Spending Review with CSR07 covering departmental allocations for 2008-09, 2009-10 and 2010-11. CSR07 was a long term and fundamental review of the Government's programme and introduced the concept of Departmental Strategic Objectives.
Department for Children, Schools and Families (DCSF)	A government department created on 28 June 2007 following the disbanding of the Department for Education and Skills (DfES). It is responsible for all issues affecting people up to the age of 19 including education. It is led by the Secretary of State for Children, Schools and Families.
Department for Education and Skills (DfES)	Former government department that split in 2007 to become the Department for Innovation, Universities and Skills (DIUS) and the Department for Children, Schools and Families (DCSF).
Departmental Expenditure Limit (DEL)	Spending which is planned and controlled on a three-year basis in Spending Reviews.

Departmental Strategic Objectives (DSOs)	Introduced in CSR07 these represent the full range of a department's business and reflect the contributions departments make to PSAs, which are increasingly delivered by a number of departments or other organisations working together. DSOs are supported by appropriate performance indicators.
Deputy Prime Minister's Office (DPMO)	The DPMO was formed in 2006 when the CLG took over much of the responsibilities of the ODPM. The role was to support the Deputy Prime Minister until June 2007 when no new DPM was appointed.
Director General (DG)	DCLG has six Directors General who are the heads of the departments six groups; Housing and Planning, Regions and Communities, Communities Group, Local Government and Regeneration, HR and Transformational Change, Finance and Corporate Services Delivery. All DGs are members of the board.
End Year Flexibility (EYF)	Any unspent DEL may be carried forward through the system of End Year Flexibility. This allows departments to carry forward any unspent resources from one year to the next and is part of a broad approach to public expenditure that allows departments to plan spending programmes over the medium term and to avoid wasteful end of year spending. EYF should be used in a planned way to carry money forward for specific purposes, to handle any slippage in capital projects, and to avoid any last minute pressure to spend at year-end.
European Regional Development Fund (ERDF)	Established in 1975 to stimulate economic development in the least prosperous regions of the European Union.
Local Area Agreements (LAA)	Agreements made between central and local government in a local area. Their aim is to achieve local solutions that meet local needs, while also contributing to national priorities and the achievement of standards set by central Government.
Local Management Accounts Team (LMAT)	Units in the line which enter transactions to SAP and provide financial information to budget managers, Directors, Directors General and the centre.
Head of Finance (HoF)	The heads of finance lead the local management accounts teams and provide a financial support function to their Director General, Directors and Deputy Directors.
Non-Departmental Public Body (NDPB)	An entity that has a role in the process of Government, but is not a Government department, nor forms part of a department. It can incur expenditure on its own account and is usually financed at least in part from public funds. Broadly there are two types of NDPB; **Advisory** NDPBs provide independent and expert advice to Ministers on particular topics of interest. They do not usually have staff, but are supported by staff from the Department. They do not usually have their own budget, as costs incurred come within the Department's expenditure. **Executive** NDPBs carry out administrative, regulatory and commercial functions; they employ their own staff and are allocated their own budgets.
Programme Boards	Meet monthly to manage the development of strategy and the delivery of the Department's priorities. The Boards report to the Delivery Sub-Committee and the departmental board.

Public Service Agreement (PSA) targets

These were introduced in the 1998 Comprehensive Spending Review. They set out agreed targets detailing the outputs and outcomes departments are expected to deliver with the resources allocated to them. The Government monitors progress against PSA targets, and departments report in detail twice a year in their annual Departmental Reports (published in spring) and in their autumn performance reports. These reports provide Parliament and the public with regular updates on Departments' performance against their targets.

Revenue Support Grant (RSG)

A Government grant to make up the shortfall between a Local Authority's Formula Spending Share (formerly Standard Spending Assessment) and the amount it would receive from Assumed National Council Tax and redistributed business rates. The total amount is set out in Section 2 of the Local Government Finance Report published as a House of Commons Paper and available from the Stationery Office.

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