



National Audit Office

DEPARTMENTAL OVERVIEW

A summary of the NAO's work on the Department for Communities and Local Government 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 Communities and Local Government Select Committee with a summary of the work by the National Audit Office on the Department for Communities and Local Government 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 contents of the briefing have 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.

In the last year, we provided the Communities and Local Government Select Committee with a briefing on the Department's spending and delivery landscape to inform its consideration of the 2010 Spending Review. The briefing described the Department's financial management and its structural reform priorities.¹ We also supplied written evidence to the Committee's inquiry on regeneration, drawing on our work on regeneration over the past decade.²

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

¹ *National Audit Office briefing for the Communities and Local Government Committee*, http://www.nao.org.uk/publications/1011/clg_committee.aspx

² <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmcomloc/writew/regeneration/m29.htm>

Part One

About the Department

The Department's responsibilities

1 The Department for Communities and Local Government (the Department) leads on the Government's decentralisation and localism agendas, and has an important role in delivering economic growth and the Big Society project. Its purpose is to make 'a radical redistribution of power and funding from government to local people to deliver what they want for their communities, transforming public services and ensuring that all communities are equipped and incentivised to grow and prosper'. The Department has five specific priorities to:

- meet people's housing aspirations;
- decentralise power as far as possible;
- put communities in charge of planning;
- increase accountability; and
- let people see how their money is being spent.

2 The Department sets policy on supporting local government; communities and neighbourhoods; regeneration; housing; planning, building and the environment; and fire (including supporting the Fire and Rescue Service).³

How the Department is organised

3 The Department's Secretary of State is supported by a team of five ministers. The Secretary of State chairs the Department's Board, which is responsible for developing programmes and allocating money to achieve the Department's aims, monitoring achievement towards these aims and managing the Department's resources. The Board's role is to advise and support Ministers on the operational implications and effectiveness of policy proposals.

4 The Department's programmes are mainly delivered by third parties, including local authorities, fire and rescue services, and non-departmental public bodies. In April 2011, the Departmental

Group consisted of the Department, three Executive Agencies, a non-ministerial Department with agency status and a range of other bodies that deliver policy aims. As at April 2011, the Department had 27 arm's-length bodies (Appendix One).

Where the Department spends its money

5 In 2010-11, the Department spent £38 billion, the majority of which (£31 billion) was used to support local authorities (see **Figure 1** overleaf). The majority of the remainder was used to fund non-departmental public bodies. The largest of these, the Homes and Communities Agency, received £4.1 billion in 2010-11.

6 The core Department and the Planning Inspectorate (whose accounts are consolidated into the Departmental resource accounts) employed some 3,800 staff in 2010-11. Staff costs (including redundancy costs) amounted to £298 million.

Recent developments

7 The Department is currently leading a number of developments linked to the Government's decentralisation, localism and Big Society agendas. During 2010-11, the Department:

- introduced the Localism Bill in December 2010,⁴ which is designed to give new freedom and flexibilities to local authorities and communities;
- continued its review of local government resourcing,⁵ which included the launch of 16 Community Budgets in April 2011 to give local authorities new freedoms to pool resources to support families with complex needs; the abolition of the Housing Revenue Account subsidy system; and consultation on allowing local authorities to retain receipts from national non-domestic rates (business rates);
- launched, as part of a package intended to deliver up to 150,000 new affordable homes between 2011 and 2015, a £2.2 billion Affordable Rent programme, under which registered providers of social housing may charge up to 80 per cent of market rents on some of their properties;⁶

³ Department's corporate website: <http://www.communities.gov.uk/corporate/about/>

⁴ Parliament UK website: <http://services.parliament.uk/bills/2010-11/localism/stages.html>

⁵ Department's corporate website: <http://www.communities.gov.uk/statements/corporate/localgovernmentfinance>

⁶ Homes and Communities Agency website: <http://www.homesandcommunities.co.uk/affordable-homes>

Figure 1

Where the Department spent its money in 2010-11

**NOTE**

- 1 These figures may vary from other documents (for example, the Department's Business Plan) reflecting the different criteria used to generate the information and the timings of their production.

Source: *Financial Statements of the named bodies and the Department for Communities and Local Government Annual Report and Accounts 2010-11*

- agreed the principles for transferring the assets and liabilities held by the Regional Development Agencies to the Homes and Communities Agency for management under its stewardship;
- consulted on the future of local audit arrangements, following the Secretary of State's announcement in August 2010 of plans to disband the Audit Commission;⁷ and
- consulted on draft policies to make the planning system less complex and more accessible through reforms described in the National Planning Policy Framework.⁸

8 At the same time, the Department has agreed to implement substantial reductions in its expenditure by 2014-15, reducing both the size of the core Department and the number and size of its arm's-length bodies (including the closure of the Government Offices in 2010-11), to save around a third of its 2010-11 budget, in real terms, by 2014-15. To support these developments, the Department has launched a change programme.⁹

Capability and leadership

9 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 2009.¹⁰ 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'.

10 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.

11 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 for Communities and Local Government – 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).¹¹ Results of 17 major departments are in Appendix Two.

12 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 Communities and Local Government achieved an engagement index of 48 per cent, five percentage points lower than last year and eight percentage points lower than the 2010 Civil Service average.

⁷ Future of local public audit consultation: <http://www.communities.gov.uk/publications/localgovernment/localpublicauditconsult>

⁸ National Planning Policy Framework consultation: <http://www.communities.gov.uk/publications/planningandbuilding/draftframework>

⁹ Department Annual Report and Accounts 2010-11: <http://www.communities.gov.uk/documents/corporate/pdf/1946774.pdf>

¹⁰ More information about Capability Reviews is available at: www.civilservice.gov.uk/about/improving/capability/index.aspx

¹¹ The results presented here are for the two themes 'Leadership and managing change' and 'Organisational objectives and purpose'. The survey contained questions for a further seven themes. The full results for 2010 are at <http://www.civilservice.gov.uk/about/improving/engagement/people-survey-2010.aspx>

Figure 2**2010 Civil Service People Survey: Department for Communities and Local Government (excluding agencies)**

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	27	-11	-14
Senior Civil Servants in the Department are sufficiently visible	42	-6	-3
I believe the actions of Senior Civil Servants are consistent with the Department's values	28	-6	-11
I believe the Departmental Board has a clear vision for the future of the Department	19	-12	-16
Overall, I have confidence in the decisions made by the Department's Senior Civil Servants	23	-10	-12
I feel that change is managed well in the Department	21	-5	-6
When changes are made in the Department they are usually for the better	13	-8	-10
The Department keeps me informed about matters that affect me	51	-8	-3
I have the opportunity to contribute my views before decisions are made that affect me	29	-14	-3
I think it is safe to challenge the way things are done in the Department	32	-8	-7
Organisational objectives and purpose			
I have a clear understanding of the Department's purpose	63	-8	-21
I have a clear understanding of the Department's objectives	59	-7	-18
I understand how my work contributes to the Department's objectives	67	-6	-13

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 Communities and Local Government Survey Results Autumn 2010

Part Two

Financial management

13 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 Control¹² 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

14 In 2010-11, the Department recorded a total underspend of £395 million, or 1 per cent, of its budget.¹³ This occurred mainly because of underspends on European Regional Development Fund Programmes and Local Area Agreement Reward Grants (the budget for which was cut as part of the June 2010 emergency budget reductions), and changes in the accounting treatment of fire assets.

Progress on cost reduction

15 Departments are under increasing pressure to reduce costs. The scale of cost reduction required means that they are having 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 longer term. Our **Short Guide to Structured Cost Reduction**,¹⁴ published in June 2010, sets out

the high level principles that we 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.

16 We have published detailed information and guidance on a number of the principles underpinning effective structured cost reductions, including **Managing risks in government**,¹⁵ **Progress in improving financial management in government**,¹⁶ and **Taking the measure of government performance**.¹⁷

17 The Public Accounts Committee's report on **Progress with VfM savings**¹⁸ found that the Department was behind on its delivery of savings to meet its 2007 Comprehensive Spending Review targets. Halfway through the spending review period, the Department showed the slowest progress in Whitehall, having reported £40 million of savings against a target of £987 million. The Committee found that the Department did not demonstrate ownership of its own target and recommended that there should be clear consequences for senior civil servants who fail to deliver planned improvements.

18 In the June 2010 budget, the Department committed to reduce its planned spending by a further £780 million in 2010-11. It delivered the June 2010 budget savings by:¹⁹

- reducing spending on lower priority programmes;
- cutting running costs by £50 million across the Departmental Group; and
- not needing to make use of unallocated funding.²⁰

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

¹³ Department Annual Report and Accounts 2010-11: <http://www.communities.gov.uk/publications/corporate/annualreport1011>

¹⁴ *Short Guide to Structured Cost Reduction* http://www.nao.org.uk/publications/1011/structured_cost_reduction.aspx

¹⁵ *Managing risks in government*, http://www.nao.org.uk/publications/1012/managing_risks_in_government.aspx

¹⁶ *Progress in improving financial management in government*, http://www.nao.org.uk/publications/1011/financial_management_in_govt.aspx

¹⁷ *Taking the measure of government performance*, http://www.nao.org.uk/publications/1011/government_performance.aspx

¹⁸ *Progress with VfM savings and lessons for cost reduction programmes*, <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmpubacc/440/440.pdf>

¹⁹ Department Annual Report and Accounts 2010-11: <http://www.communities.gov.uk/publications/corporate/annualreport1011>

²⁰ Unallocated funding is funding that was not allocated to a specific programme when the Parliamentary Estimate was agreed.

19 The Department's overall budget settlement for the period to 2014-15 was set out in the October 2010 Spending Review, which requires the Department to reduce its budget by 33 per cent in real terms by 2014-15.²¹ The Department stated in its 2010-11 Annual Report and Accounts that it expects revenue expenditure against its 'communities' budget to reduce from £3.7 billion in 2010-11 to £1.3 billion (in cash terms) in 2014-15. Capital expenditure against this budget will reduce from £6.4 billion in 2010-11 to £2 billion in 2014-15.²² Some of these reductions will be achieved by reducing the size of the Department, and reducing the number and size of its arm's-length bodies by two thirds (see Appendix One), though the majority will be through reductions in programme spending. Meanwhile, the Department's core revenue funding for local authorities will reduce from £26 billion to £23 billion over the same period.²³

20 To support the delivery of these savings, the Department has launched a change programme intended to make the Department 'smaller, stronger and more focused on delivering its core agenda'. The Department has restructured its senior staff and reduced the number of Directors General from six to three.²⁴ Restructuring for other grades began in April 2011, and is due to be completed by the end of October 2012. The Department reported that, in 2010-11, it agreed a total of 1,381 'exit packages' for staff, at a total cost of £58 million (plus a further £19 million accrued for further exits in future years).²⁵ This includes exit packages for Government Office Network staff and Planning Inspectorate staff.

21 As part of its cost reduction strategy, during 2010-11, the Department has also:

- overseen the closure of the Government Offices for the Regions.²⁶ The Department estimates this will save up to £200 million between 2011-12 and 2014-15. Of the 1,691 staff in post in the Government Offices in July 2010, the Department expects around:
 - 465 to leave on a voluntary redundancy basis;

- 184 to leave through a compulsory redundancy scheme; and
- the majority of the remainder to be redeployed to other posts in the Civil Service, with a number also leaving for reasons unrelated to the closure (for example, retirement and resignation).

The Department estimates the cost of funding these redundancies to be around £43 million;²⁷ and

- announced plans to reduce the number of arm's-length bodies by two thirds to deliver expected administrative savings of £170 million from its core Departmental budget and £60 million from its Local Government budget by 2014-15 (four public bodies have already been closed in 2010-11 – see Appendix One for details of the Department's arm's-length bodies).

NAO reports on financial management

22 During the last year, our reports have identified a number of areas where financial management could be improved across the Department.

Dealing with exchange rate fluctuations

23 Our report on **Managing the impact of changes in the value of the euro on EU funds**²⁸ found that the Department considered the impact of potential losses from exchange rate movements and its ability to absorb them within its existing budgets. It was the only department of those examined (also included were the Department for Work and Pensions and the Department for Environment, Food and Rural Affairs) to model the impact of exchange rate gains and losses on its funding, but it did not cost the use of hedging instruments to meet its specific requirements. The Department concluded that it did not have the expertise needed to hedge and decided it could tolerate gains and losses.

21 HM Treasury, *Spending Review 2010*: http://cdn.hm-treasury.gov.uk/sr2010_completereport.pdf

22 Department Annual Report and Accounts 2010-11: <http://www.communities.gov.uk/publications/corporate/annualreport1011>

23 Department Annual Report and Accounts 2010-11: <http://www.communities.gov.uk/publications/corporate/annualreport1011>

24 Department's corporate website: <http://www.communities.gov.uk/news/corporate/1908039>

25 Department Annual Report and Accounts 2010-11: <http://www.communities.gov.uk/publications/corporate/annualreport1011>

26 Also known as the Government Office Network

27 Department Annual Report and Accounts 2010-11, <http://www.communities.gov.uk/publications/corporate/annualreport1011>

28 *Managing the impact of changes in the value of the euro on EU funds*, http://www.nao.org.uk/publications/1011/eu_funds.aspx

Understanding costs and benefits

24 Our report on **Progress in improving financial management in government**²⁹ found that government departments need a greater understanding of what drives costs and where value can be found. In the case of the Department for Communities and Local Government, its review of the cost-effectiveness of Firebuy was 'based on incomplete savings and cost evidence'. The report concluded that departments 'are unlikely to deliver the savings [required under the Spending Review 2010] without improving their financial management capacity and capability'. Similarly, in the early stages of delivering the **Mortgage Rescue Scheme**,³⁰ the Department made administrative changes which combined to increase the average cost of delivering each rescue. The Department 'undertook financial analysis to support each of its individual changes, but did not use this information to adequately establish its exposure to financial risk'.

NAO financial audit findings

25 The National Audit Office audits the accounts of the Department and its Executive Agency, the Planning Inspectorate, 11 of its 12 non-departmental public bodies, its three Trading Funds, one of its Public Corporations and one other body. Local Authorities, which received £31 million from the Department in 2010-11, are audited by the Audit Commission. In each of the last six years, we have given an unqualified audit opinion on the Department's accounts. The Department wrote off £212 million of expenditure (to date) on the abandoned FiReControl project in December 2010 as it was not deemed to have provided any economic benefit.

26 The accounts of seven of the Department's arm's-length bodies drew attention to material uncertainties surrounding the going concern of the bodies following the Government's announcements on the intention to abolish these bodies. Furthermore, two sets of financial statements were prepared on the basis that the bodies had been abolished.³¹

27 The HM Treasury-led 'Clear Line of Sight' project requires the Department to consolidate its non-departmental public bodies into its Annual Report and Accounts from 2011-12. This requirement will be a key challenge for the Department in preparing its Annual Report and Accounts for 2011-12.

Issues raised in Statements on Internal Control

28 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.

29 In its Statement on Internal Control in 2010-11, the Department raised several issues.

- In December 2010, the Department terminated the contract with the main supplier for the FiReControl project and identified risks arising from future arrangements for the leases of the new buildings; the treatment of other non current assets; and the recognition that significant losses (and nugatory payments) had been incurred on the programme.
- In September 2010, the European Commission temporarily interrupted the payments of funds³² to the Department due to concerns about the strength of controls over projects administered by the Regional Development Agencies. This was lifted in December 2010 but a further interruption was imposed in March 2011 to six out of ten programmes. This was part of Europe-wide interruptions to programmes that have reported error rates of over 5 per cent. All interruptions have now been lifted. The Department has taken over responsibility for administering European Regional Development Funding in England following the closure of Government Offices in March 2011. It has established a team responsible for mitigating risks arising from the transition, prior to the closure of Regional Development Agencies in March 2012.

²⁹ *Progress in improving financial management in government*, http://www.nao.org.uk/publications/1011/financial_management_in_govt.aspx

³⁰ *The mortgage rescue scheme*, http://www.nao.org.uk/publications/1012/mortgage_rescue_scheme.aspx

³¹ These bodies are Firebuy Limited, abolished on 31 March 2011, and the Community Development Foundation, which the Department stopped supporting as an arm's-length body on 1 April 2011.

³² An interrupted payment is when further payments are temporarily suspended until the Department can provide the European Commission with evidence to alleviate its concerns.

- The Department's Internal Audit Service's review of the Department's online data collection and grant administration system – and associated testing of its security arrangements – found a number of weaknesses that needed to be addressed to protect against the risk of external hacking. The Department is strengthening its processes and is implementing further controls in response to these findings.
- In response to our audit findings for 2010-11 and earlier years (and reports from the Department's Internal Audit Services) which identified instances of non-compliance, the Department strengthened its budget delegation framework during 2010-11. Authority for the management and accountability of resources was delegated to Directors-General, including programme and administration budget allocations. For 2011-12, the Department has further delegated authority to Directors through Directors-General and requires all submissions to Ministers that have financial implications to be cleared with its Finance Directorate and Heads of Finance.
- The Department provides the Internal Audit function for the Queen Elizabeth II Conference Centre. It found that the control environment is generally satisfactory but an isolated case of fraud using a Government Procurement Card was found. The subsequent investigation resulted in a criminal conviction of a member of staff. The amount involved was approximately £32,000, of which £6,000 was recovered. The Department revised guidance on the use of the payment card and strengthened governance arrangements.

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 will be published regularly in a Quarterly Data Summary. The Department published its first such summary 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. 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.³³ 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 many of the new performance indicators. Through its review of departmental business planning, however, the House of Commons Committee of Public Accounts³⁴ 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.

³³ <http://www.cabinetoffice.gov.uk/resource-library/business-plan-quarterly-data-summary>

³⁴ *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 In June 2010, HM Treasury ended the system of Public Service Agreements and announced that future departmental business plans would include data that the public can use to hold departments to account. The Department's business plan sets out its five key input indicators, for example, the expenditure per head on the Fire and Rescue Service, and eight key impact indicators, for example, the number of fire-related casualties, which it will publish at least annually. The Department published up-to-date information on its progress in its Annual Report and Accounts.³⁵

37 This is the first year in which the Department has used its input indicators as performance measures, so it is difficult to assess the Department's overall performance at this stage. As the Department gathers data over a longer period of time it will be possible to assess the direction of travel against these indicators.

38 The Department's impact indicators include several measures of the delivery of new housing and affordable housing. In 2010-11, the total number of housing completions fell to the lowest level since 1990-91 following the low number of housing starts in 2009-10 and 2008-09. The number of affordable housing starts also decreased from the previous year. However, the total number of housing starts increased in 2010-11 compared to 2009-10, reflecting a recovery from the low level of starts following the economic downturn. The Department has introduced several new initiatives to increase the supply of housing and affordable housing. The impact of these initiatives will not be apparent in the housing statistics for some time. The new schemes include a New Homes Bonus for local authorities, and an 'affordable rent' scheme under which social housing providers have flexibility to charge rents up to 80 per cent of market rates on some of their properties.³⁶

39 The Department's 196 Structural Reform actions to meet its priorities are mostly on track. Seventy-nine per cent of the actions in the Structural Reform Plan were completed to time in 2010-11, and by June 2011, the Department had completed 116 actions and started 49. Two actions were overdue:³⁷

- to develop a cross-government approach to social integration and tackling extremism (delayed to include the findings from the Home Office's Prevent Review, published on 7 June 2011); and
- to designate policy statements to support the changes in planning of major infrastructure projects (delayed pending the findings from a report on nuclear safety following the earthquake and tsunami in Japan).

40 The Department's business plan also outlines the data the Department will publish to support public scrutiny and to improve the transparency of public services. The Department now publishes online data on its grant expenditure and data on all spending over £500, and has encouraged local authorities to do the same. It has also to set out similar obligations for its arm's-length bodies to publish equivalent data.

Testing the reliability of performance data across government

41 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 Report³⁸ 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.

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

³⁵ Department Annual Report and Accounts 2010-11: <http://www.communities.gov.uk/documents/corporate/pdf/1946774.pdf>

³⁶ Further information is available from the Homes and Communities Agency website: <http://www.homesandcommunities.co.uk/affordable-homes>

³⁷ Department website: <http://www.communities.gov.uk/documents/corporate/pdf/1941295.pdf>

³⁸ *Taking the measure of government performance* www.nao.org.uk/publications/1011/government_performance.aspx

Use of information by the Department

43 Our reports over the past year have highlighted issues in the way the Department uses information to design, appraise and monitor its programmes and projects.

Using information to develop new projects and programmes

44 Our reports on the **Mortgage Rescue Scheme**³⁹ and **the Failure of FiReControl**⁴⁰ identified that the Department underestimated the cost of achieving the intended outcomes from these programmes. The Department 'could have estimated demand more accurately if it had made better use of the information at the outset' of the Mortgage Rescue Scheme. Similarly, its initial estimates of the cost of delivering the FiReControl project did not include all the relevant costs, and overestimated the savings that could be achieved. We recommended that, when setting up new programmes or managing changes to existing programmes, the Department should 'draw more thoroughly on existing evidence and data' and 'conduct a thorough analysis of the impact on unit costs and compare this cost to the expected unit benefit to assess whether the value for money case still holds'.

Using information to assess the delivery of existing programmes

45 Our reports found a mixed picture in the way the Department has defined, collected and analysed the data it needs to assess whether its programmes were delivering the intended benefits cost-effectively.

- Between 1998 and 2009, the Department allocated £4.3 billion to **PFI in housing**⁴¹ projects to refurbish 12,343 homes and build a further 991. We found in July 2010, that, at programme level, the Department had not 'routinely undertaken evaluation of its housing investment routes to help assess whether it is realising value for money and did not collect the data which would have allowed it to do so'. The Public Accounts Committee subsequently recommended that the Department 'define minimum data requirements and then take responsibility for ensuring that information collected from, and distributed to, local projects is complete, accurate and consistent'.⁴² The Department has stated that it requires local authorities to provide datasets on Housing PFI projects and has developed a framework using this data to aid the evaluation of the programme and individual projects.
- We found that a quarter of the indicators the Department uses to calculate the **Formula Grant** – the main central government revenue grant for local councils, police authorities and fire authorities – are based on data sources that are now ten or more years old. Furthermore, the Department has not set quality standards about the levels of data accuracy or timeliness that it expects.
- However, the Department demonstrated good practice in relation to the **Mortgage Rescue Scheme** by commissioning an early external evaluation, which yielded useful findings.⁴³

39 *The mortgage rescue scheme*, http://www.nao.org.uk/publications/1012/mortgage_rescue_scheme.aspx

40 *The failure of FiReControl*, http://www.nao.org.uk/publications/1012/failure_of_firecontrol.aspx

41 *PFI in housing*, http://www.nao.org.uk/publications/1011/pfi_in_housing.aspx

42 *PFI in housing*, <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmpubacc/631/631.pdf>

43 *The mortgage rescue scheme*, http://www.nao.org.uk/publications/1012/mortgage_rescue_scheme.aspx

Part Four

Service delivery

46 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 business.

47 Establishing new projects and programmes:

Our reports on the **Mortgage Rescue Scheme**⁴⁴ and the **Failure of FiReControl**⁴⁵ highlighted weaknesses in way the Department's developed and appraised these programmes before they were introduced. In both cases, we noted that the Department did not have a complete understanding of how customers and stakeholders would respond to the programmes, leading to inaccurate estimates of costs and benefits and, in the case of FiReControl, the deliverability of the project.

48 Our report on **PFI in housing**⁴⁶ in June 2010, found that difficulties in early funding rounds meant the programme was slow to develop, and the Department 'was slow to respond effectively ... and the programme had not subsequently picked up procurement pace'. The Department told the Public Accounts Committee that 'insufficient time was invested in the beginning of the process' and it 'now spends more time evaluating projects at an early stage'. The Committee recommended that the Department ensure its actions to address previous programme failings result in future projects being delivered to time and within cost.⁴⁷ In response, the Department reviewed how cost estimation

and procurement times could be improved and intends to revise its Housing PFI guidance to reflect its conclusions.⁴⁸

49 Managing and monitoring programmes effectively to deliver the intended benefits:

Our reports on the **Mortgage Rescue Scheme**⁴⁹ and the **Failure of FiReControl**⁵⁰ concluded that, after implementation, these programmes had not delivered the intended benefits and that, as a result, value for money had not been achieved.

- By March 2011, the **Mortgage Rescue Scheme**⁵¹ had directly helped 2,600 households at a cost of £240 million, compared with plans to deliver 6,000 rescues for £205 million. We concluded that, after realising its initial assumptions were inaccurate, the Department did not take action early enough to improve the value obtained from public investment. The Department has recently taken steps to reduce the up-front cost of the Scheme to the taxpayer.
- The **FiReControl**⁵² project started in 2004 and was expected to be complete by 2009 but the Department cancelled the project in December 2010 after concluding it could not be delivered to an acceptable timeframe. At this point the Department calculated that the project would cost more than five times the original estimate of £120 million. The Department's failure to manage the project as a whole resulted in the creation of empty regional control centres. We estimated that these will cost the Department a minimum of £247 million until the final lease expires in 2035. We recognised, however, the Department's bold decision to cut its losses by terminating the project and limiting the downside as far as possible.

44 *The mortgage rescue scheme*, http://www.nao.org.uk/publications/1012/mortgage_rescue_scheme.aspx

45 *The failure of FiReControl*, http://www.nao.org.uk/publications/1012/failure_of_firecontrol.aspx

46 *PFI in housing*, http://www.nao.org.uk/publications/1011/pfi_in_housing.aspx

47 *PFI in housing*, <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmpubacc/631/631.pdf>

48 Department's response to Public Accounts Committee Report, <http://www.official-documents.gov.uk/document/cm80/8042/8042.asp>

49 *The mortgage rescue scheme*, http://www.nao.org.uk/publications/1012/mortgage_rescue_scheme.aspx

50 *The failure of FiReControl*, http://www.nao.org.uk/publications/1012/failure_of_firecontrol.aspx

51 *The mortgage rescue scheme*, http://www.nao.org.uk/publications/1012/mortgage_rescue_scheme.aspx

52 *The failure of FiReControl*, http://www.nao.org.uk/publications/1012/failure_of_firecontrol.aspx

50 Our report on **Formula funding of local public services**⁵³ found that the Department's objectives for the Formula Grant are not 'sufficiently precise or time-bound to allow assessment of the extent to which they have been achieved' and that 'the qualitative nature provides little discipline over the key elements in the allocations process'. We found that, as additional objectives have been added, the model for funding has become increasingly complex, in tension with the current government policy on increasing transparency.

⁵³ *Landscape review: Formula funding of local public services*, http://www.nao.org.uk/publications/1012/formula_funding.aspx

Appendix One

The Department's arm's-length bodies at 1 April 2011 and future plans

Executive Agencies

Planning Inspectorate

Trading Funds

Fire Service College

Ordnance Survey

To continue its role but was transferred in July 2011 via a Machinery of Government Transfer Order to the Department for Business, Innovation and Skills

Queen Elizabeth II Conference Centre

Executive Non-Departmental Public Bodies (NDPBs)

Firebuy

Body abolished and some functions transferred to the Department

Homes and Communities Agency

Independent Housing Ombudsman Ltd

Infrastructure Planning Commission

Body to be abolished and functions transferred to the Planning Inspectorate

The Leasehold Advisory Service

Future of body under consideration

London Thames Gateway Development Corporation

Proposed to abolish body and devolve functions to local government or other London bodies

Standards Board for England

Proposed to abolish body and function

The Office for Tenants and Social Landlords (also known as Tenant Services Authority)

Proposed to abolish body and transfer functions to the Homes and Communities Agency

Thurrock Thames Gateway Development Corporation

Proposed to abolish body and transfer functions to local government

West Northamptonshire Development Corporation

Proposed to abolish body and transfer functions to local government

Valuation Tribunal Service

Proposed to abolish body and transfer functions to the Ministry of Justice

Community Development Foundation

Public body status removed: to be supported as a social enterprise

Advisory bodies

Advisory Panel for the Local Innovation Awards Scheme (formerly Advisory Panel for the Beacon Scheme)

Body and function abolished

Advisory Panel on Standards for the Planning Inspectorate

Body abolished

Building Regulations Advisory Committee

National Housing and Planning Advice Unit

Body and function abolished

Public Corporations

Architects Registration Board

Audit Commission for Local Authorities and the National Health Service in England	Proposed to abolish body
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Tribunals

Rent Assessment Panels/Residential Property Tribunal Service	Jurisdiction transfer to the Land, Property and Housing Chamber in the First-tier Tribunal and functions transfer to the Ministry of Justice
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Valuation Tribunal for England	Proposed that jurisdiction transferred to the Land, Property and Housing Chamber in the First-tier Tribunal
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Other body

Commission for Local Administration (commonly known as the Local Government Ombudsman)

Appendix Two

Results of the Civil Service People Survey 2010

Question scores (% strongly agree or agree)

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

Source: Civil Service People Survey 2010, www.civilservice.gov.uk/about/improving/employee-engagement-in-the-civil-service

Civil Service overall

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

Reports by the NAO on the Department since 2008

Reports presented to Parliament

Publication date	Report title	HC number	Parliamentary session
1 July 2011	The failure of the FiReControl project	HC 1272	2010-12
25 May 2011	The Mortgage Rescue Scheme	HC 1030	2010-12
18 February 2011	Managing the impact of changes in the value of the euro on EU funds	HC 759	2010-11
22 December 2010	NAO Briefing for the Communities and Local Government Committee	http://www.nao.org.uk/publications/1011/clg_committee.aspx	
23 July 2010	Reducing the cost of procuring Fire and Rescue Service vehicles and specialist equipment	HC 285	2010-11
7 July 2010	Short guide to the NAO's work on the Department for Communities and Local Government	http://www.nao.org.uk/publications/1011/short_guide_dclg.aspx	
25 June 2010	PFI in Housing	HC 71	2010-11
30 March 2010	Regenerating the English Regions: Regional Development Agencies' support to physical regeneration projects	HC 214	2009-10
9 February 2010	FiReControl project: Memorandum for the House of Commons Communities and Local Government Select Committee	http://www.nao.org.uk/publications/0910/firecontrol_project.aspx	
21 January 2010	The Decent Homes Programme	HC 212	2009-10
17 December 2009	Regenerating the English Coalfields	HC 84	2009-10
12 October 2009	Performance of the Department for Communities and Local Government 2008-09: Briefing for The House of Commons Communities and Local Government Committee	http://www.nao.org.uk/publications/0809/briefing_clg.aspx	
17 July 2009	Financial Management in the Department for Communities and Local Government	HC 293	2008-09
17 December 2008	Planning for Homes: Speeding up planning applications for major housing developments in England	HC 15	2008-09
31 October 2008	New Dimension: Enhancing the Fire and Rescue Services' capacity to respond to terrorist and other large-scale incidents	HC 1050	2007-08

Reports presented to Parliament continued

Publication date	Report title	HC number	Parliamentary session
October 2008	Performance of the Department for Communities and Local Government 2007-08	http://www.nao.org.uk/publications/0708/performance_of_the_dclg.aspx	
16 July 2008	The Regeneration of the Greenwich Peninsula: A Progress Report	HC 338	2007-08
2 July 2008	Programmes to reduce household energy consumption	HC 1164	2007-08

Other published reports

19 July 2010	Independent Supplementary Reviews of Regional Development Agencies
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Appendix Four

Cross-government NAO reports of relevance to the communities and local government sector

Publication date	Report title	HC number	Parliamentary session
20 July 2011	Landscape review: Formula funding of local public services	HC 1090	2010-12
5 May 2011	Department for Transport: Local Authority Major Capital Schemes		
18 March 2010	Reorganising central government	HC 452	2009-10
14 July 2010	Taking the Measure of Government Performance	HC 284	2010-11
December 2009	Reducing bureaucracy for public sector front line staff: Briefing for the House of Commons Regulatory Reform Committee		
6 November 2009	Commercial skills for complex government projects	HC 962	2008-09
21 October 2009	Measuring Up: How good are the Government's data systems for monitoring performance against Public Service Agreements?	HC 465	2008-09
16 October 2009	Government cash management	HC 546	2008-09
26 March 2009	Innovation across central government	HC 12	2008-09
27 February 2009	Helping Government Learn	HC 129	2008-09
13 February 2009	Recruiting civil servants efficiently	HC 134	2008-09
6 February 2009	Building the Capacity of the Third Sector	HC 132	2008-09
5 February 2009	Assessment of the Capability Review programme	HC 123	2008-09
19 December 2008	Central government's management of service contracts	HC 65	2008-09

Appendix Five

Other sources of information

Reports from the Committee of Public Accounts since 2008

Publication date	Report title	HC number
24 May 2011	Thirty-seventh report of Session 2010–12 Departmental Business Planning	HC 650
18 January 2011	Fourteenth Report of Session 2010-11 PFI Housing and Hospitals	HC 350
18 March 2010	Twenty-first Report of Session 2009-10 The Decent Homes Programme	HC 350
10 March 2010	Sixteenth Report of Session 2009-10 Regenerating the English Coalfields	HC 247
2 July 2009	Thirty-third Report of Session 2008-09 Planning for Homes: Speeding up planning applications for major housing developments in England	HC 236
12 March 2009	Tenth Report of Session 2008-09 New Dimension – Enhancing the Fire and Rescue Services' capacity to respond to terrorist and other large-scale incidents	HC 249
3 March 2009	Fifth Report of Session 2008-09 Programmes to reduce household energy consumption	HC 228
15 November 2007	Sixty-second Report of Session 2006-07 The Thames Gateway: Laying the Foundations	HC 693
27 March 2007	Nineteenth Report of Session 2006-07 A Foot on the Ladder: Low Cost Home Ownership Assistance	HC 134

Recent reports from the Audit Commission

10 March 2011	Housing Market Renewal: programme review 2010
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Recent reports from Central Government

2009	HM Government, Benchmarking the Back Office: Central Government
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Where to find out more

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

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