Departmental Overview

The performance of the Department for Communities and Local Government 2013-14

OCTOBER 2014

Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

Contents

Introduction

Aim and scope of this briefing

1 The primary purpose of this report is to provide the Communities and Local Government Select Committee (the Committee) with a summary of the Department for Communities and Local Government's (the Department's) activity and performance since September 2013, based primarily on published sources, including the Department's own accounts and the work of the National Audit Office (NAO).

2 Part One focuses on the Department's activity over the past year. Part Two examines developments in this Parliament. Part Three concentrates on NAO analyses of activity over the last year. Part Four takes the form of a case study, looking in greater detail at how the Department uses financial instruments to help support new housing supply, a key issue for the Department at the current time.

3 The content of the report has been shared with the Department to ensure that the evidence presented is factually accurate.

Part One

About the Department

The Department's responsibilities

1.1 The Department for Communities and Local Government (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). It supports local development and promotes economic growth.

1.2 In May 2010, the coalition agreement set out that the Department would redistribute power and funding from central government to local people, transform public services, and support communities to grow. The Department set out its coalition priorities in its May 2011 business plan. These priorities have not changed significantly since. The Department's four specific priorities are to:

- decentralise power as far as possible;
- reinvigorate accountability, democracy, participation and transparency;
- support and incentivise local growth; and
- meet people's housing aspirations.

How the Department is organised

1.3 The Department's Secretary of State is supported by 5 ministers and chairs the Department's board. The board advises and supports ministers on operational implications and effectiveness of policy proposals, translating policy into results. It advises on 5 areas: strategic clarity; commercial sense; talented people; focus on results; and management information. The board is supported by non-executive directors and an executive team who manage the Department's daily business.

1.4 The Department is organised into 5 groups: neighbourhoods; localism; finance and corporate services; troubled families; and the strategy, communications and private office directorate. **Figure 1** overleaf shows the people in charge of these areas and the activities they are responsible for.

1.5 The Department works with 12 arm's-length bodies to provide its programmes. The arm's-length bodies operating during 2013-14, and plans for changes, are shown in more detail at Appendix One.

Figure 1
How the Department is organised

Department for Communities and Local Government
(Sir Bob Kerslake, Permanent Secretary)

Localism (Helen Edwards)	**Neighbourhoods** (Peter Schofield)	**Troubled Families** (Louise Casey)	**Finance and Corporate Services** (Andrew Campbell)	**Strategy, Communications and Private Office** (David Hill)
Local government finance and policy Fire, resilience and emergencies Neighbourhood empowerment Integration and community rights	Planning, housing and local economic growth	Delivery of the Prime Minister's ambition to turn around the lives of 120,000 troubled families by the end of this Parliament	Finance, human resources, change, analysis, legal and internal audit Cross-government management information and transparency Performance and places team	Supporting ministers in articulating and driving the delivery of ministerial priorities across the Department External and Internal communications, campaigns and marketing Digital communications

Note
1 Sir Bob Kerslake is also Head of the civil service.

Source: Department for Communities and Local Government organisation chart, July 2014

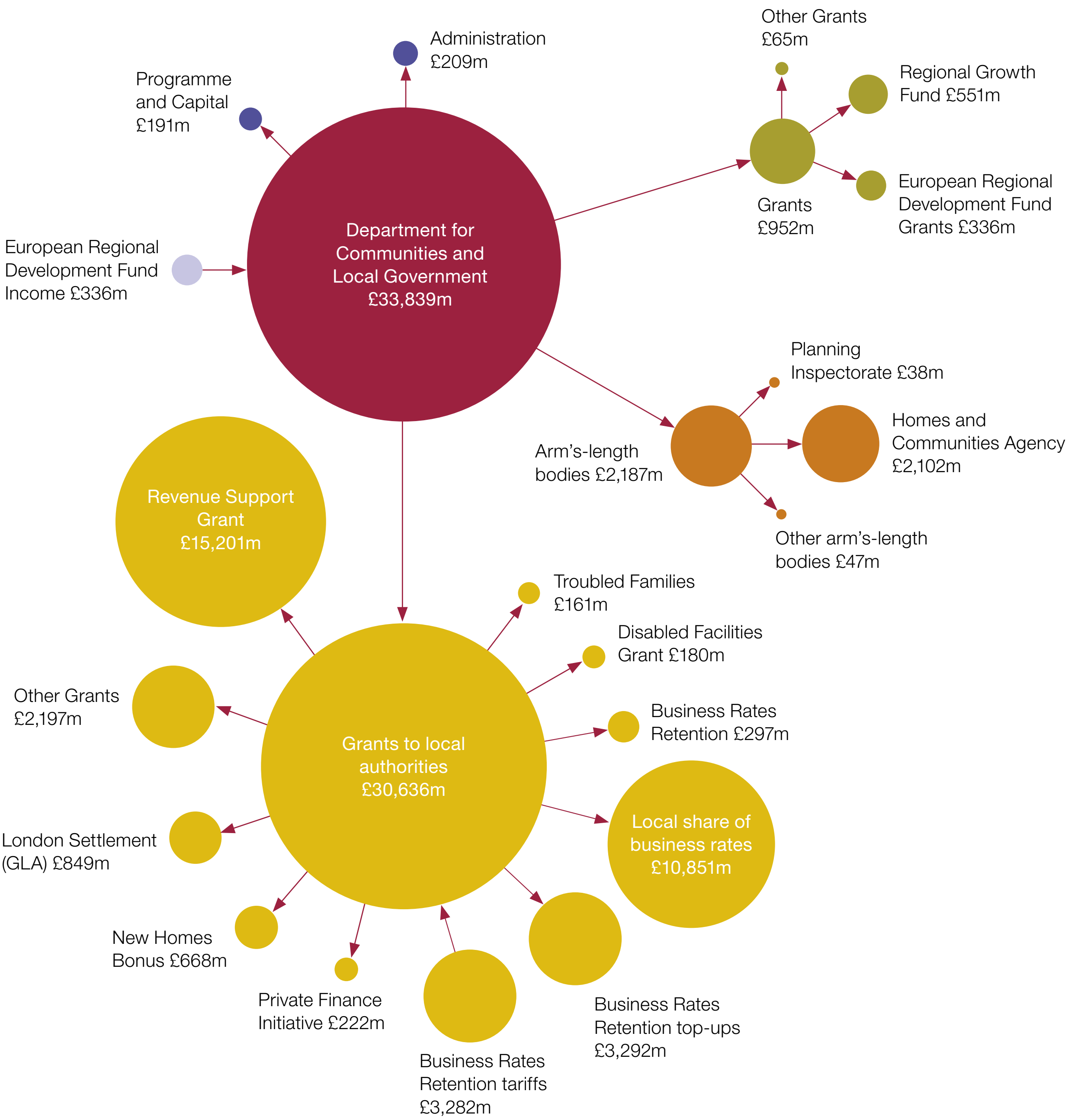
1.6 The Department has gone through changes in its organisation during the last few years (paragraph 2.20). These changes have happened through the Department's commitments on civil service reform, its Departmental Improvement Plan and the implementation of the 2013 Strategic Review. The Department reports that it has brought together the key elements from those commitments in a 'blueprint' document, developed in January 2014 and to be published at a later date. The document sets out the Department's agenda for change under 4 themes – 'Our Organisation', 'Our Leaders', 'Our People' and 'Our Way of Working'.

Where the Department spends its money

1.7 In 2013-14, the Department group's net resource and capital outturn was £33.8 billion (see **Figure 2**). The Department used 90% of this (£30.6 billion) to support local government through grant funding. The Department paid most of this funding as 'unringfenced' grant with no conditions on how local authorities should spend it. Paragraph 2.15 looks at how the proportion of unringfenced grant has changed between 2010-11 and 2013-14.

Figure 2

Where the Department spent its money in 2013-14



Notes

1 All amounts are net.

2 In 2013-14, the Department recorded programme income of £3,857 million. Of this the largest amount is £3,282 million of tariff income from the business rates retention scheme, followed by £336 million from the European Regional Development Fund (reimbursing grant payments). The total remaining income of £239 million supports the Department's net expenditure. The Department also recorded Consolidated Fund extra receipt income of £160 million from Right to Buy receipts, which it collects and pays into the Consolidated Fund. This does not form part of the overall net resource and capital budget or outturn.

3 The Department's annual report and accounts records the local share of business rates of £10,851 million as grant expenditure. The local share is reported as rates income in local authorities' Comprehensive Income and Expenditure Statements. Net receivable rates are noted in an 'agent's statement'.

Source: National Audit Office analysis of the Department for Communities and Local Government *Annual Report and Accounts 2013-14,* July 2014

1.8 Our report on *Local government funding: Assurance to Parliament* looked at how Parliament gains assurance that local authorities spend their grants as intended.[1] To assure regularity of unringfenced grants, departments only need to assure Parliament that local authorities have used the funding within their legal powers. As there are no specific stated policy objectives for how local authorities should use these grants, departments do not monitor spending patterns directly to assess policy impact. The local accountability system gives assurance on whether this funding is lawful and value for money.

1.9 The Department used most of its remaining budget to fund work by its 12 arm's-length bodies. The largest of these, the Homes and Communities Agency (the Agency), is the national housing and regeneration agency for England. In 2013-14, the Agency's net spending was £2.1 billion, mainly financed by the Department through grant-in-aid. This supported several programmes, the two largest being Help to Buy (£858 million) and the Affordable Homes Programme (£373 million).

1.10 The Department spent £952 million on grant funding besides that paid to support local authorities. Most of this funding supported local economic growth, with £336 million for European Regional Development Fund projects and £551 million for the Regional Growth Fund in 2013-14. The Department for Business, Innovation & Skills published an annual monitoring report in July 2014 that includes examples of the Regional Growth Fund projects supported.[2] We summarise our reports on local growth in the last year in paragraphs 3.8 to 3.13.

Staff attitudes

1.11 The government has conducted its Civil Service People Survey annually for the past 5 years. The most recent survey was carried out during October 2013. Continuing our practice in past briefings, we summarise here the views of the Department's staff on a number of key issues, and compare them to benchmarks for the civil service as a whole. Detailed results for all departments are reproduced at Appendix Two.

1.12 **Figure 3** shows the Department's scores for the 9 themes in the survey. Overall, the Department has improved its scores since last year, and is now above the civil service average in 5 out of 9 themes. In particular, the Department has increased its score for 'leadership and managing change' by 9 percentage points since the last survey. This brought this score within 1 percentage point of the civil service average.

1 Comptroller and Auditor General, *Local government funding: Assurance to Parliament*, Session 2014-15, HC 174, National Audit Office, June 2014.

2 Department for Business, Innovation & Skills, *Regional Growth Fund annual monitoring report 2014*, July 2014, available at: www.gov.uk/government/publications/regional-growth-fund-annual-monitoring-report-2014.

Figure 3

Civil Service People Survey 2013: Department for Communities and Local Government (excluding agencies)

Theme	Driver of engagement[1]	Theme score (% positive)[2]	Difference from 2012 survey	Difference from civil service average 2013[3]
Leadership and managing change	4	40	+9	-1
My work	3	76	+6	+2
Learning and development	3	47	+10	0
Pay and benefits	2	36	+4	+6
My manager	2	71	+4	+4
Resources and workload	2	72	+5	-2
Organisational objectives and purpose	2	75	+8	-7
My team	1	82	+5	+3
Inclusion and fair treatment	0	76	+6	+1

Notes

1 The 'driver of engagement' column shows the statistical significance of each theme to the engagement index as a 0 to 4 range. A score of 4 shows the strongest association, and a score of 0 shows no association.

2 A positive theme score shows the proportion of respondents who selected either 'agree' or 'strongly agree' for a question.

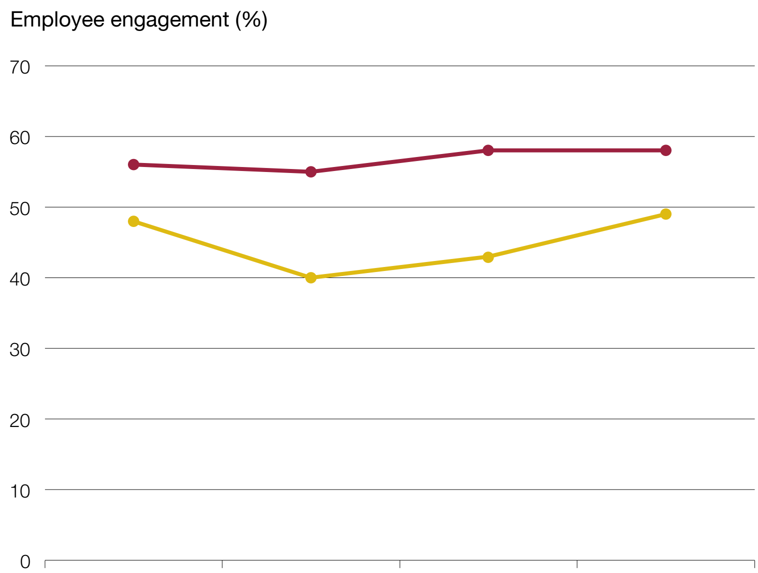
3 The 2013 benchmark for the civil service average is the median per cent positive across all organisations in the 2013 civil service staff survey.

Source: Department for Communities and Local Government Civil Service People Survey, February 2014

1.13 The headline measure for the Civil Service People Survey is the 'employee engagement index' which gives a single measure of employees' attitude towards their employer. In 2013, the Department scored 49% on the index, an increase from 43% the year before. This is, however, still below the civil service median (58% in 2013). The trend of employee engagement over the last 4 years for the Department and the civil service median is in **Figure 4**.

Figure 4
Employee engagement 2010 to 2013

Employee engagement index



	2010	2011	2012	2013
Civil service average	56	55	58	58
Department	48	40	43	49

Note

1 A score of 100% would represent all respondents saying they strongly agree to all 5 engagement questions.

Source: Department for Communities and Local Government Civil Service People Survey results

Part Two

Developments in this Parliament

Changes to the Department's spending since 2010

2.1 Spending reviews set departmental spending plans for future years. They set the departmental expenditure limits (DELs) for resource and capital spend within which departments can work. The Department is responsible for two DELs. The communities DEL is the Department's core budget, which it uses to fund initiatives to support new housing supply and promote local economic growth. The local government DEL is used to fund local authorities. The Department also has annually managed expenditure (AME). This is spending affected by factors outside the Department's control and outside Parliament's limits.

2.2 The Department's overall budget has reduced substantially over the course of this Parliament, and is now £33.2 billion for 2014-15. Its spending is expected to decrease in real terms from £40.1 billion in 2010-11 to £28.5 billion in 2015-16, a fall of 29%. **Figure 5** overleaf shows the Department's overall budgets and outturns since 2010-11.

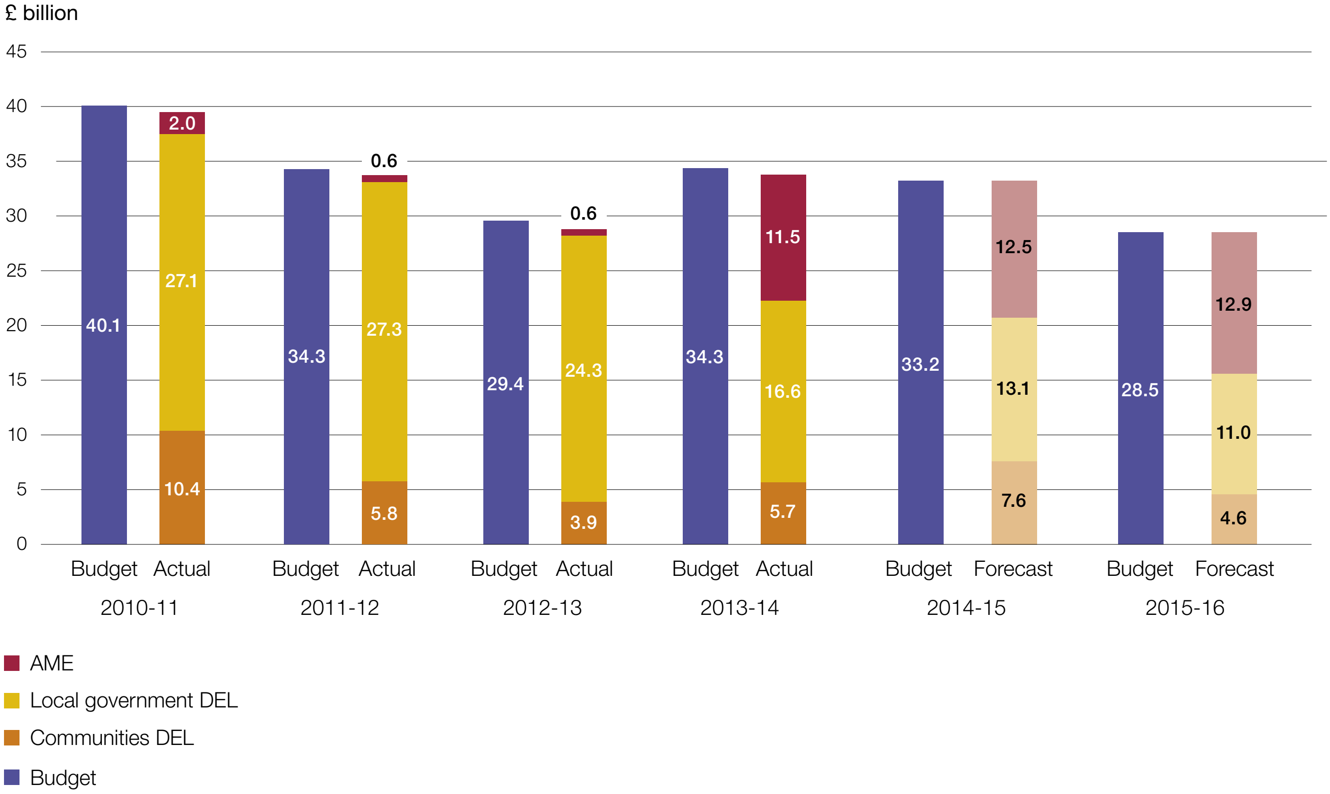
2.3 During 2012-13, the Department exceeded two of the annual limits that Parliament had set, which led to the qualification of the Department's accounts.[3] The Department spent cash of £29,027 million against an agreed limit of £28,972 million and also used £1,221,000 of capital local government DEL against an agreed limit of £80,000. The Department exceeded these limits and did not identify this risk early enough. Also, it did not prevent 2 of its arm's-length bodies from exceeding their delegated budgets. The Department has commissioned an internal review designed to prevent these issues from happening again (paragraph 3.2). The Department did not exceed any of its annual limits in 2013-14 and received an unqualified audit opinion on its 2013-14 accounts.

2.4 The Department has significantly increased the proportion of its outturn that is AME to £11.5 billion in 2013-14, from £0.6 billion in 2012-13. This change is due to the introduction of business rate retention (BRR). We look at this change to local government funding in paragraphs 2.8 to 2.10.

3 Comptroller and Auditor General, *Department for Communities and Local Government Accounts 2012-13*, June 2013, available at: www.nao.org.uk/report/department-for-communities-and-local-government-accounts-2012-13/

Figure 5

Department's spending: budget and outturn



Note

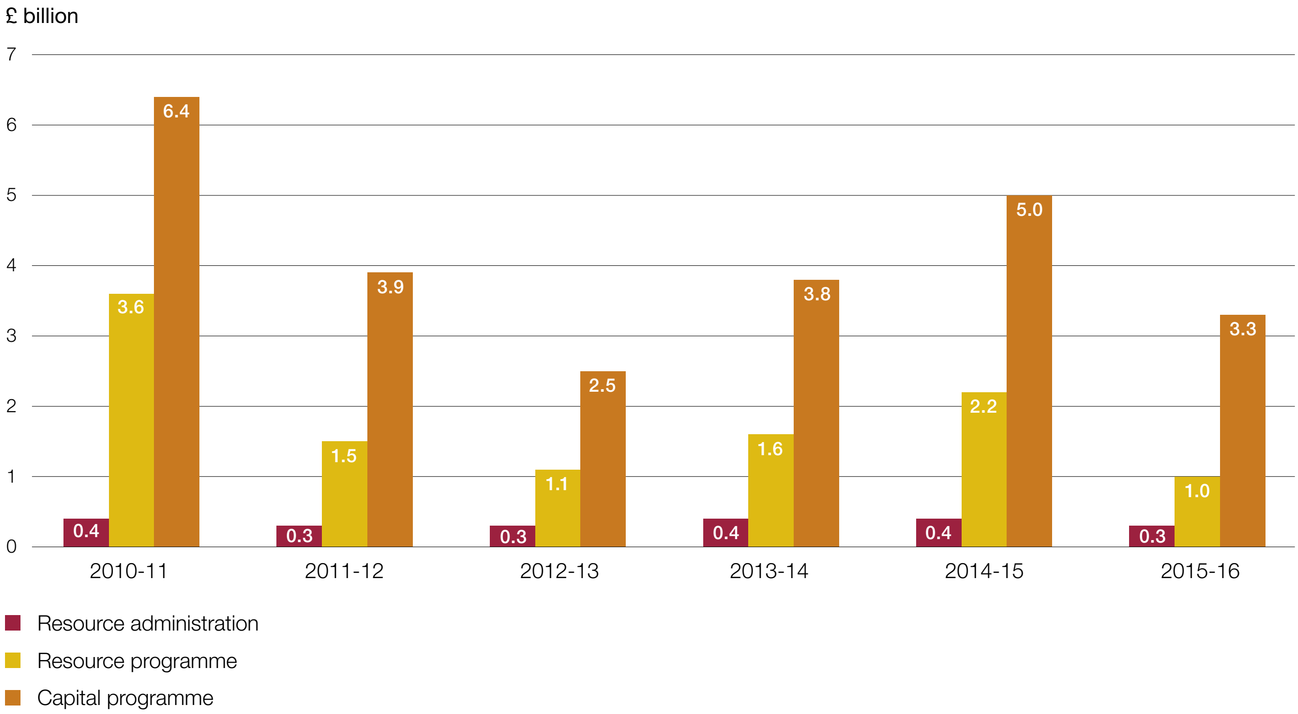
1 Amounts stated are in 2013-14 terms, adjusted for inflation using GDP deflators produced by HM Treasury in June 2014.

Source: National Audit Office analysis of the Department's *Annual Reports and Accounts 2013-14,* July 2014

Communities DEL

2.5 The Department uses its communities DEL budget to fund programmes in policy areas such as local economic growth and housing. It funds these directly and through its arm's-length bodies, such as the Homes and Communities Agency (the Agency). **Figure 6** shows the Department's communities DEL will decrease in real terms from £10.4 billion in 2010-11 to £4.6 billion in 2015-16, a fall of 56%. The Department's communities spending increased in 2013-14 (as did its planned spending for 2014-15). This occurred because the Department introduced initiatives and had delays in spending the previous year's funding on some programmes, such as the Regional Growth Fund.

Figure 6
The Department's communities DEL



Notes
1 Amounts stated are in 2013-14 terms, adjusted for inflation using GDP deflators produced by HM Treasury in June 2014.
2 Figures for 2014-15 and 2015-16 are the Department's forecasts presented to Parliament in the 2014-15 estimate memorandum.
3 Totals for some years show small differences from communities DEL in Figure 5 due to rounding.

Source: National Audit Office analysis

2.6 One way in which the Department seeks to achieve value for money from its communities DEL is by running competitions for limited funding. On these programmes, the government invites potential delivery partners to bid for a pool of funding and then selects the bids which best meet its objectives. The Department is using this approach on its new recoverable investment programmes in housing.

2.7 Our reports on the implementation of the Regional Growth Fund[4] and the Affordable Homes Programme[5] looked at the effectiveness of schemes managed in this way. For the Regional Growth Fund we noted that the projects selected should deliver jobs more cost-effectively for the taxpayer than the projects not selected. We also found, however, that value for money was not optimised because too much money was allocated to projects that offered relatively few jobs for the public money invested.

4 Comptroller and Auditor General, *The Regional Growth Fund*, Session 2012-13, HC 17, National Audit Office, May 2012.
5 Comptroller and Auditor General, *Financial viability of the social housing sector: introducing the Affordable Homes Programme*, Session 2012-13, HC 465, National Audit Office, July 2012.

2.8 The Department is changing its operating model to move away from traditional grant-giving, especially in how it supports new housing supply. It is increasingly funding programmes through recoverable financial investments (such as the Help to Buy equity loan scheme) or by offering to guarantee debt that banks or housing developers hold (such as in the Affordable Homes and Private Rented Sector guarantee schemes). The Agency has already moved to a point where the March 2014 valuation of its available for sale financial investments (£1,554 million) exceeded its payment of grants during 2013-14 (£1,052 million). Part Four looks in more detail at the Department's use of recoverable financial investments, particularly the Help to Buy equity loan scheme.

Local government funding and business rate retention

2.9 The other component of the Department's budget is its funding for local government. This budget covers the Department's core grant funding to local authorities. As in previous years, this formed most of the Department's spend in 2013-14. Figure 5 on page 12 shows the reduction in outturn in real terms from £27.1 billion in 2010-11 to £16.6 billion in 2013-14, a decrease of 39%.

2.10 A significant change in how the Department funds local authorities this year was the business rates retention scheme, which the Department introduced in April 2013. Under this scheme local authorities keep a portion of the business rates they collect (currently 50%) as an incentive to promote local business rate growth. Local authorities kept £10.8 billion in business rates in 2013-14. Under the previous scheme, national non-domestic rates, local authorities paid all their business rates to central government which then redistributed them to local government using a needs-based formula.

2.11 The Department reports the income kept by local authorities in its own accounts (as AME). Although it does not directly control the total amount kept, it controls whether and how the scheme works. Ministers have said the business rate system will be reset in 2020.

2.12 The Department's local government DEL budget and outturn for 2013-14 increased after it introduced the council tax support scheme. This support was set at £3.7 billion for 2013-14 and replaced the previous council tax benefit funded by the Department for Work & Pensions. The Department funds the council tax support scheme as part of its grants to local authorities. Paragraphs 3.22 to 3.24 summarise our 2013-14 report on council tax support.

Policy and delivery: major developments since 2010

2.13 In May 2010, the government published *The Coalition: our programme for government* which set out the key policies for its 5 year term.[6] It set out how the Department would redistribute power and funding from government to local people, to transform public services and equip and incentivise communities to grow and prosper. The Department's priorities, set out in its business plan and referred to in paragraph 1.2 of this report, reflect these aims.

6 HM Government, *The Coalition: our programme for government*, May 2010, available at: www.gov.uk/government/publications/the-coalition-documentation

The Department's business plan priorities

2.14 The Department has led the localism agenda across government. Early actions included abolishing comprehensive area assessments and regional spatial strategies. The government formalised localism policy in the 2011 Localism Act, which gave local authorities greater autonomy and decision-making powers.[7] Related legislation included the 2012 Local Government Finance Act.[8] This introduced business rate retention and greater local autonomy over council tax reduction schemes. Also, the 2014 Local Audit and Accountability Act formalised the new local accountability arrangements that will take effect once the abolition of the Audit Commission is complete.[9]

2.15 Against this backdrop, the way central government supports local government has changed. There is the business rate retention scheme described in paragraphs 2.10 to 2.12. Also **Figure 7** overleaf (taken from our report *Local government funding: Assurance to Parliament*)[10] shows that, after adjusting for new or abolished grants, revenue funding to local authorities that is ringfenced or targeted has decreased from £10.1 billion in 2010-11 to £4.1 billion in 2013-14. The Department has led these changes and devolved more financial decision-making to the local level because it wants to give local authorities freedom to be innovative and efficient with their reduced allocation of central government funding.

2.16 The Department has worked to transform the local growth landscape. It was heavily involved in the abolition of the Regional Development Agencies and has supported the introduction and development of Local Enterprise Partnerships (LEPs). LEPs are now managing more central government and European funding and are strategic bodies for local growth. The Department has also supported grant schemes including the Regional Growth Fund and Growing Places Fund. It has designated areas as 'enterprise zones' which attract several benefits. The Department has also negotiated deals with local areas. These include City Deals and, in 2014, Growth Deals with LEPs, which incorporate a new local growth fund. The Department has also tried to address growth barriers by simplifying planning guidance and introducing the Growth and Infrastructure Act 2013.[11] We set out our main findings from our recent reports covering local economic growth in paragraphs 3.8 to 3.13.

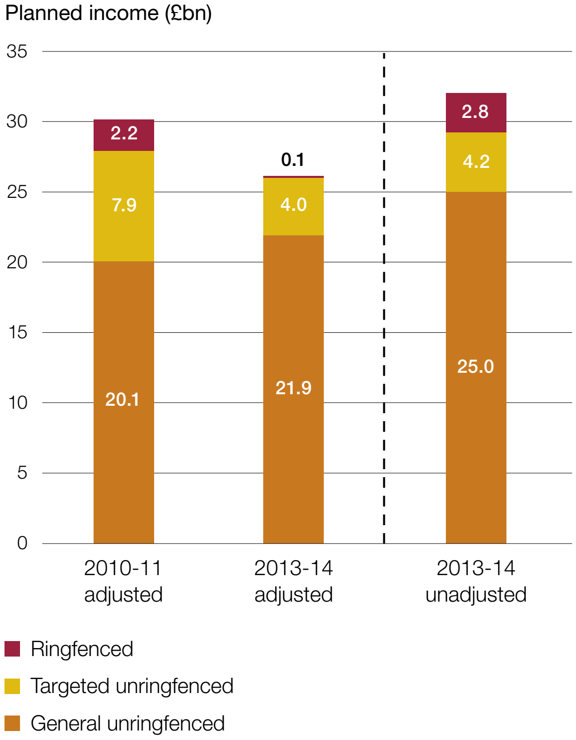
2.17 The Department has also sought to address the challenge of the widening gap between household formation and housing supply. It has tried to create incentives to increase new housing supply by linking local authority funding to housing provision through the New Homes Bonus. It also reformed planning by introducing the National Planning Policy Framework.

7 Localism Act 2011, available at: www.legislation.gov.uk/ukpga/2011/20/contents
8 Local Government Finance Act 2012, available at: www.legislation.gov.uk/ukpga/2012/17/contents
9 Local Audit and Accountability Act 2014, available at: www.legislation.gov.uk/ukpga/2014/2/contents
10 Comptroller and Auditor General, *Local government funding: Assurance to Parliament*, Session 2014-15, HC 174, National Audit Office, June 2014.
11 Growth and Infrastructure Act 2013, available at: www.legislation.gov.uk/ukpga/2013/27/contents

Figure 7

Change in budgeted revenue funding by grant type, 2010-11[1] to 2013-14[2]

On a like-for-like basis, the level of ringfenced and targeted funding has fallen since 2010-11 while unringfenced general funding has grown



Notes

1 2010-11 data is before the 2010 emergency budget and the 2010-11 in-year cuts.

2 The adjusted data for 2010-11 includes learning disability commissioning transfers, and excludes two-year-old early learning and childcare funding. The adjusted data for 2013-14 excludes Public Health grant, local welfare provision and Council Tax support, new burdens and transition funding.

Source: National Audit Office analysis of Department for Communities and Local Government's data

2.18 The Department has supported housebuilding through grants and loans to housing associations, developers and buyers. It has:

- supported affordable homebuilding through the £4.5 billion Affordable Homes Programme. We reported on the launch of this programme in July 2012 and concluded that while the launch had been successful, the achievement of value for money will depend on how successful the Department is in managing risk throughout the programme.[12] The Department is intending to spend a further £1.7 billion on Affordable Homes in the period 2015 to 2018;

12 Comptroller and Auditor General, *Financial viability of the social housing sector: introducing the Affordable Homes Programme*, Session 2012-13, HC 465, National Audit Office, July 2012.

- supported local authorities and developers by helping fund the infrastructure needed to allow communities to build new homes (through programmes such as the £1.5 billion Local Infrastructure Fund and the £770 million Growing Places Fund);
- supported private housing developers to supply new housing through a wide range of programmes (such as Kickstart, Get Britain Building, and Build to Rent); and
- promoted home ownership through revisions to Right to Buy, and through financial support to homeowners such as Help to Buy, NewBuy and predecessor schemes like FirstBuy.

2.19 Our latest report on housing covered the Help to Buy equity loan scheme. We set out more details on this scheme in paragraphs 3.14 to 3.16 and Part Four.

Organisational changes

2.20 Alongside the changes to the way it delivers its policies and programmes, the Department has undergone some significant changes as an organisation. **Figure 8** overleaf shows that, since 2009-10, the Department has reduced its average full-time equivalent (FTE) staff from 4,172 to 1,679, a decrease of 60%. The Department's arm's-length bodies (listed in Appendix One) have also made reductions in the same period. These reductions are part of the Department's transformation to a new operating model that relies largely on others (such as LEPs, housing developers and commercial organisations) to deliver policies and priorities. The Department has acknowledged that it needs to build its capability in some key areas, such as additional commercial skills to manage the significant increase in its use of financial instruments (see Part Four).

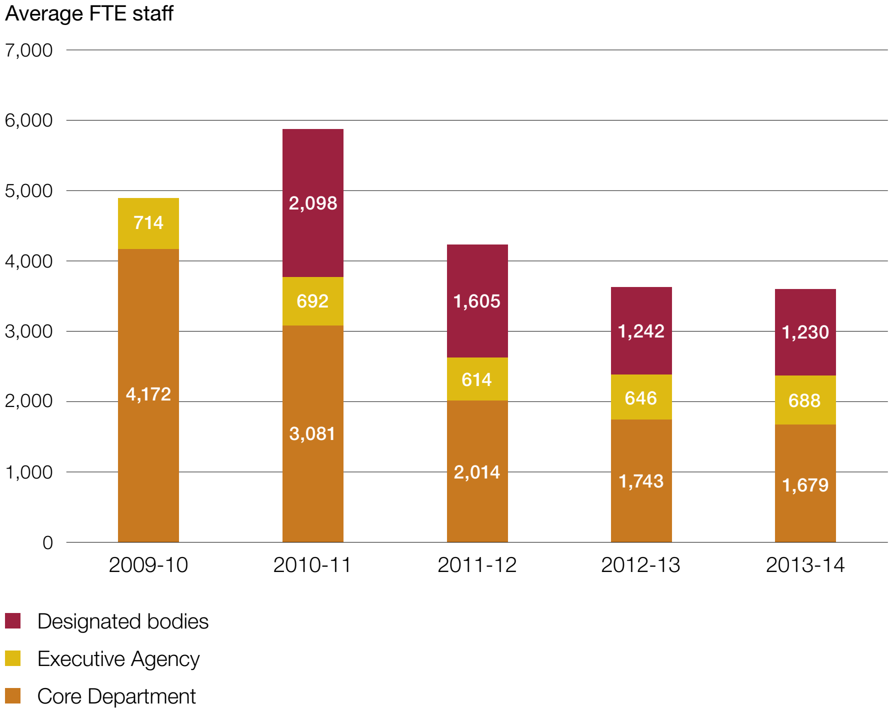
Independent assessments of the Department's performance

2.21 In Part Three of this report, we look at the NAO's assessment of the Department's performance in 2013-14. Alongside our work and that of the Communities and Local Government Select Committee, however, a number of other bodies regularly produce independent analyses of how the Department is doing and of the challenges it faces. In this section, we look at some of the most notable of these reports published in the last year.

2.22 The Local Government Association published a series of reports in 2013-14 on the future of local government financing. These reports highlighted the increasing funding pressures from higher demand on services and reducing funding from both central government and locally-raised sources. We will examine these issues as part of our forthcoming follow-up to our January 2013 report on the financial sustainability of local authorities that is due for publication in autumn 2014 (paragraph 3.33).

Figure 8

Reduction in the Departmental group's average full-time equivalent (FTE) staff since 2009-10



Notes

1 Executive Agency is the Planning Inspectorate - all other arm's-length bodies are 'designated bodies'.

2 The Department did not include 'designated bodies' (otherwise known as arm's-length bodies) in its Departmental group for 2009-10. The largest of these bodies is the Homes and Communities Agency which employed 981 people in 2009-10.

3 The number of people employed by the Departmental group is higher than the number of full-time equivalents as some staff work part-time.

4 The figures are an average for each year taken from the Department's audited accounts.

Source: National Audit Office analysis of the Department for Communities and Local Government's Annual Report and Accounts

2.23 The Local Government Ombudsman (LGO) prepares reports on issues it identifies during its investigations. Since September 2013, it has covered topics such as the use of bed and breakfast accommodation for homelessness provision, informal caring responsibilities, and the future of special educational needs provision. In its report *No place like home: Councils' use of unsuitable bed & breakfast accommodation for homeless families and young people,* the LGO stated that over the last 2 years it has seen a 14% increase in the number of complaints about council homelessness services, and this reflects the growth in the number of homeless families and young people.[13]

2.24 In December 2012, the Department commissioned Sir Ken Knight, the outgoing Chief Fire and Rescue Adviser, to conduct an independent review of efficiency in providing fire and rescue services in England. His report, *Facing the Future: Findings from the review of efficiencies and operations in fire and rescue authorities in England*, was published in May 2013.[14] The report explored the scope for greater efficiency in the Fire and Rescue service including through greater collaboration. The report said that some fire and rescue authorities spend almost twice as much per person per year in some areas than others, with little relationship between expenditure and outcomes.

Major developments for the year ahead

2.25 Several of the Department's existing programmes, including the Regional Growth Fund, Affordable Homes Programmes, and Help to Buy, are maturing in 2014-15. The Department will need to manage significant spending on these programmes this year. It will continue overseeing the operational closure of the Audit Commission, which is scheduled for March 2015.

2.26 The Department will oversee continuing changes in the bodies that provide its programmes. It recently announced a review of firefighters' terms and conditions, which will be led by Adrian Thomas and will report in 2015. This follows the review by Sir Ken Knight. The Agency has recently consulted on changes to the way it regulates social housing providers. The consultation closed on 19 August 2014.

2.27 This work will happen alongside the Department's own continuing transformation. The Department has left its offices in Eland House and moved to offices shared with the Home Office on Marsham Street during August 2014. The Department will also appoint a new Accounting Officer, following Sir Bob Kerslake's announcement that he will retire from his post as permanent secretary in early 2015.

13 Local Government Ombudsman, *No place like home: Councils' use of unsuitable bed & breakfast accommodation for homeless families and young people – Focus report: learning lessons from complaints*, October 2013, available at: www.lgo.org.uk/downloads/special%20reports/1885-FR-No-place-like-home-FINAL-11.10.2013.pdf

14 Sir Ken Knight, *Facing the Future: Findings from the review of efficiencies and operations in fire and rescue authorities in England*, May 2013, available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/200092/FINAL_Facing_the_Future__3_md.pdf

Part Three

Recent NAO findings on the Department

Our audit of the Department's accounts

3.1 The NAO's financial audits of government departments and associated bodies are primarily conducted to allow the Comptroller and Auditor General (C&AG) to form an opinion of the truth and fairness of the public accounts. In the course of these audits, the NAO learns a great deal about government bodies' financial management and sometimes this leads to further targeted pieces of work which examine particular issues. In this section, we look at the outcome of our most recent financial audit on the Department and its bodies.

3.2 The C&AG gave an unqualified audit opinion on the Department's 2013-14 accounts. During 2013-14, the Department commissioned a review of the finance function and asked the Shareholder Executive to assess the Department's capability and governance arrangements for managing its financial instruments. These measures were in response to the qualification of the Department's 2012-13 accounts due to 2 breaches of its parliamentary spending limits. The Department has set up a finance change board to oversee the implementation of the recommendations from these reviews.

3.3 The C&AG produced a report on the audit of the Department which was published with his audit certificate as part of the Department's annual report and accounts.[15] The report aimed to show how the C&AG carried out his audit responsibilities in the context of the Department's current operating environment. It did not result from a qualification of the Department's accounts. The report set out the scope of his audit, the materiality and audit risks he identified, as well as his response to these risks. The C&AG reported on the following audit risks:

- **Impact of changes to the Department's operating model** – The risk from the Department adopting more innovative ways of achieving its policy objectives (through a significant increase in equity loans, other loans and guarantees).
- **European Regional Development Fund** – The risk of the Department being unable to claim all the grant expenditure from the European Commission because of penalties for the Department not complying with often complex scheme rules.
- **Business rates retention** – The risk of the Department accounting for this new method of local authority funding incorrectly.

15 Department for Communities and Local Government, *Annual Report and Accounts 2013-14*, July 2014.

- **Regularity framework over grants to local authorities** – The risk that the changes to the local authority accountability landscape post-Audit Commission affect the C&AG's regularity audit opinion.
- **Management override of controls** – The risk that the Department manipulates accounting records or prepares fraudulent financial statements by overriding its controls. This risk is tested in all audits and does not reflect any specific circumstances identified or expected in relation to the Department.

3.4 The Department reported an increase in the value of losses and special payments from 106 cases totalling £6.7 million in 2012-13 to 99 cases totalling £82.2 million in 2013-14. Of this £82.2 million, £27 million was the exit costs for Eland House before the Department moved its main office to Marsham Street (which the Department expects will produce a net saving), and £46.3 million was a loss the Agency incurred when exiting from shares in 2 companies.

Our audits of the Department's value for money

3.5 The NAO's work to test the effectiveness and value for money of government spending in 2013-14 included a number of projects which focused on the Department. The principal findings of these and, in some cases, the actions that have been taken since, are summarised below. Where we have used figures from our reports, these were correct at the time of publication and we have not adjusted them for later performance or inflation.

3.6 Overall, our reports found the Department has implemented projects and programmes well. For example, the Help to Buy equity loan scheme and the changes to council tax support. We also found that, after a slow start to spending on local economic growth, there have been improvements – in particular to the way the Regional Growth Fund operates.

3.7 The main challenge we identified is that the Department has often found it difficult to show the impact or added value of its projects and policies, which is key to value for money. For example, the Department could not say how many of the households who are buying a home through the Help to Buy equity loan scheme would have done so without that support. The Department faces difficulties in showing its impact because it often implements policies and programmes through other bodies and organisations. It is important, however, that the Department is able to understand the impact of its projects and policies to assess their effectiveness and value for money. Our reports have covered 3 key areas of the Department's remit:

- local economic growth;
- local services; and
- local government funding and finance.

Reports on local economic growth

Funding and structures for local economic growth

3.8 Our report *Funding and structures for local economic growth*[16] examined the government's new approach to local economic growth, as set out in the 2010 White Paper *Local growth: realising every place's potential*.[17] We estimated that £3.9 billion would be spent on local economic growth by the end of 2014-15, and examined structures such as LEPs, enterprise zones, the Growing Places Fund, the Regional Growth Fund and City Deals.

3.9 We found that, while the Department had closed the previous structures such as Regional Development Agencies effectively, the new structures and programmes were introduced gradually and are making progress at different rates. This led to a decrease in spending on local growth during 2012-13, as shown in **Figure 9**. We also found that some money that the Department had recorded as spent had been transferred to delivery partners such as LEPs and was not being distributed quickly to businesses that could create jobs. We concluded that an orderly transition to the new growth landscape had not been achieved, and that this was a risk to value for money.

3.10 We recommended that the Department manage the range of initiatives as a programme and addresses how it intends to evaluate performance and monitor outcomes. In its report, the Committee of Public Accounts recommended that the Department, and the Department for Business, Innovation & Skills, should develop their monitoring systems so that they can distinguish the impact of individual schemes, make informed value-for-money judgements across the portfolio of initiatives in the short term, and should develop plans to evaluate the portfolio of initiatives over the longer term.

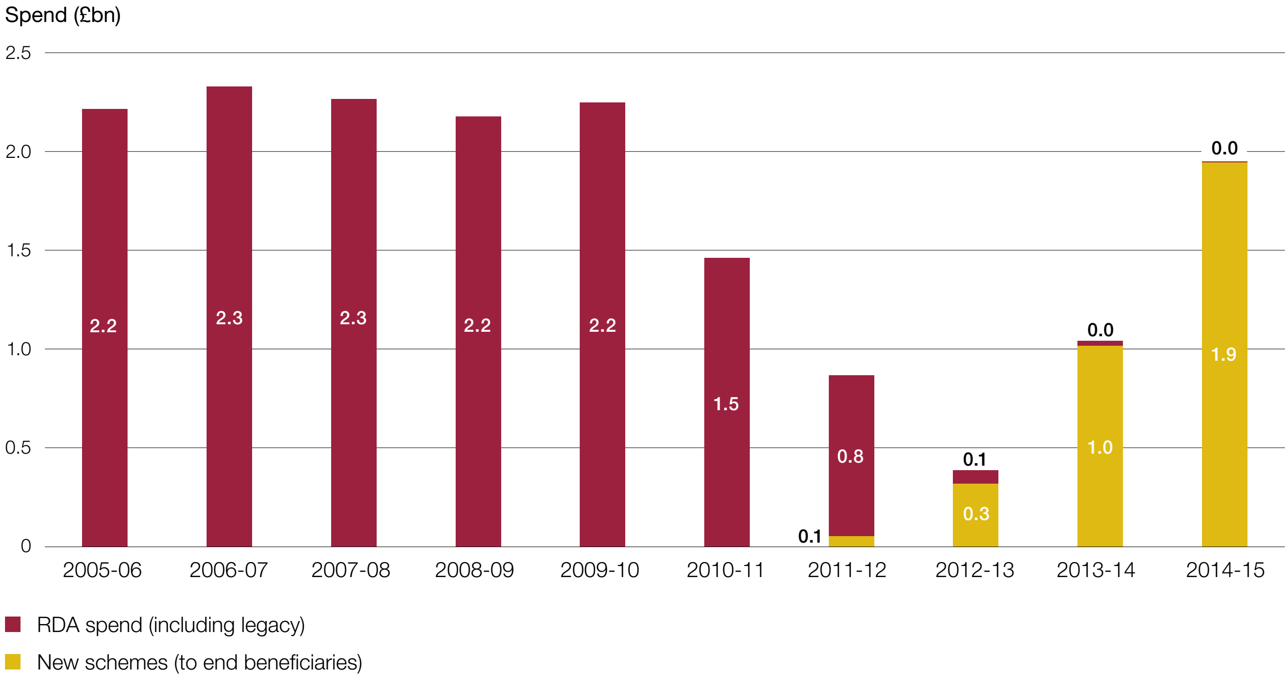
3.11 The government agreed with these recommendations and reported they had already been implemented.[18] The government committed to a more robust evaluation approach on the Growth Deals and is increasingly treating its local growth initiatives as a single portfolio. The government intends to achieve this through the devolution to LEPs of more strategic oversight for local growth, in part through each LEP's Strategic Economic Plan (these were published March 2014).

16 Comptroller and Auditor General, *Funding and structures for local economic growth*, Session 2013-14, HC 542, National Audit Office, December 2013.
17 HM Government, *Local growth: realising every place's potential*, white paper, Cm 7961, October 2010.
18 HM Treasury, *Treasury Minutes: July 2014*, available at: www.gov.uk/government/publications/treasury-minutes-july-2014

Figure 9

Government spending on Regional Development Agencies and new local growth funds and structures, 2005-06 to 2014-15 – payments to end beneficiaries

An estimated £321 million reached end beneficiaries in 2012-13



Notes

1 Spending by Regional Development Agencies is from their annual reports and accounts and excludes closure costs.

2 £357 million of Regional Growth Fund currently remains with intermediaries. It is not included in this figure but has to be paid to end beneficiaries by the end of 2014-15.

3 Excludes £57 million in revenue funding via the Growing Places Fund as the Department for Communities and Local Government has not monitored its allocation to end beneficiaries.

4 Figures have been rounded.

Source: National Audit Office analysis of departmental data

Progress report on the Regional Growth Fund

3.12 Our *Progress report on the Regional Growth Fund* reported on progress with the Fund since our May 2012 report and covered the first four bidding rounds.[19] We found that the Department, together with the Department for Business, Innovation & Skills, had improved the Fund's governance and sped up the process of making final offers to bidders whose projects were selected for support. We also found, however, that beneficiaries were not always able to spend their funding as quickly as they had anticipated and that the majority of the Fund remained unspent. **Figure 10** shows the change in budget between June 2012 and December 2013, which led to an expectation that the Department will spend £1.4 billion in 2014-15.

3.13 We recommended that the Department should introduce more sophisticated value-for-money targets for projects, and improve its management information around its assessment of the performance of repeat bidders, to minimise the risk of rewarding poor performance.[20]

Local services

The Help to Buy equity loan scheme

3.14 Our report on *The Help to Buy equity loan scheme* examined the Department's and the Agency's performance in designing and implementing this scheme to improve affordability and accessibility of homes and stimulate new housing supply.[21] Under the scheme, the government offers buyers of newly built homes an equity loan of up to 20% of the purchase price, with the remainder coming from the buyers' own deposit (which mortgage lenders normally require to be at least 5%) and a repayment mortgage. The Department allocated an initial £3.7 billion to the scheme and expects to make equity loans to 74,000 households across the three years 2013-14 to 2015-16. In the Budget 2014 the government announced that the scheme would be extended to 2019-20 and would help a further 120,000 households buy a new-build home.

3.15 We found that Help to Buy equity loans were improving access to mortgage finance and making mortgages more affordable to buyers, particularly first-time buyers. We also found, however, that the Department could not yet quantify robustly how many of the people accessing the scheme would have bought a home anyway, or how many additional homes will be built as a result and therefore we could not say whether the scheme will provide value for money. We also found that, while the Department and the Agency got the scheme up and running quickly and smoothly, uncertainty in the future cash flows from people exiting the scheme could make the scheme unaffordable for the Department in future years.

19 Comptroller and Auditor General, *Progress report on the Regional Growth Fund*, Session 2013-14, HC 1097, National Audit Office, February 2014.

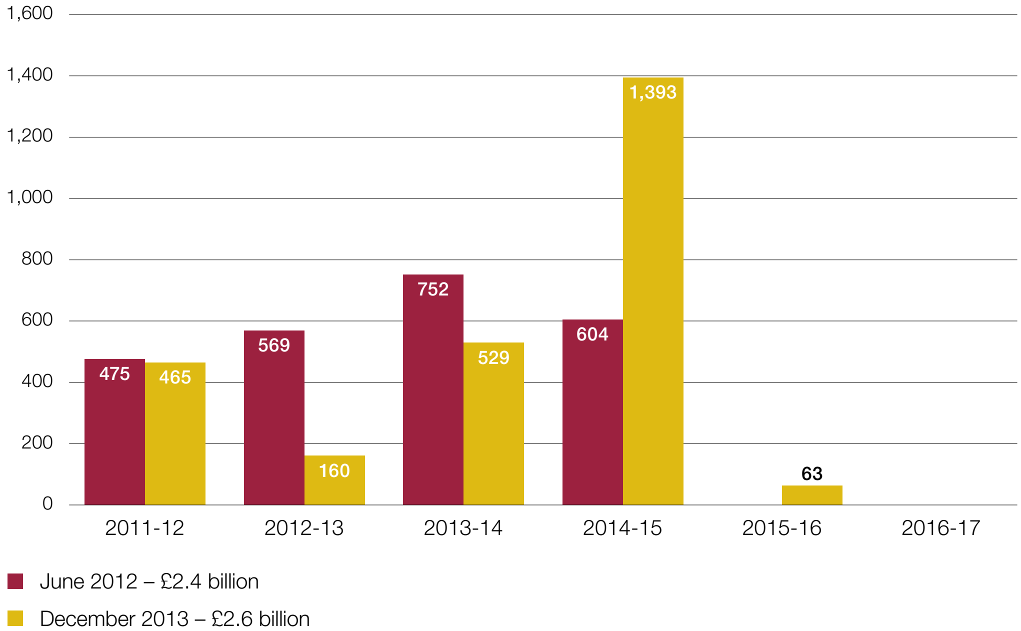
20 The Committee of Public Accounts took evidence on this report alongside our report on *Funding and structures for local economic growth*.

21 Comptroller and Auditor General, *The Help to Buy equity loan scheme*, Session 2013-14, HC 1099, National Audit Office, March 2014.

Figure 10
Fund budget by financial year

The budget profile has become more challenging because money has been allocated to the Fund faster than it has been spent

Regional Growth Fund budget (rounds one to four, £m)



Notes

1 The December 2013 budget includes actuals for 2011-12 and 2012-13.

2 The Departments had spent £290 million of the £529 million budget for 2013-14 as of the end of December 2013.

Source: National Audit Office analysis of Secretariat data

3.16 We recommended that the Department refine its modelling and controls to manage the risk exposure from small deposits or unplanned gains or losses from those exiting the scheme. We also recommended that the Department conduct an evaluation to understand the additional impact that the scheme has had on housebuilding and home ownership compared to other government initiatives. The Committee of Public Accounts also recommended that the Department conduct an evaluation and the Department has committed to doing so in 2015. In Part Four of this report we have used Help to Buy equity loans as an example to look at the Department's increasing use of financial instruments.

Programmes to help families facing multiple challenges

3.17 Our report *Programmes to help families facing multiple challenges* examined the design, implementation and performance of the Department and the Department for Work & Pensions' programmes, both introduced in 2012, to help families with multiple challenges such as unemployment, poor housing, crime and antisocial behaviour.[22]

3.18 We found that while it is too early to make a definitive statement about value for money, the programmes are starting to help some families address complex challenges, including moving towards employment. Whether they can deliver these benefits at the rate required to meet their ambitious targets will only become clear towards the end of the programmes. Although there were benefits to early roll-out, the decision not to pilot some of the programmes' innovative features meant that the Departments did not have the required insight into the likely impact of each programme. The two programmes were run, approved and set up as separate initiatives and, despite considerable efforts from both departments, there have been difficulties integrating the programmes.

3.19 In its report *Programmes to help families facing multiple challenges* the Committee of Public Accounts commended the Department's work on its Troubled Families programme.[23] It also encouraged greater joint working and data sharing, noting that the two programmes had been designed and implemented separately leading to early confusion and slow delivery, and stated that the Department needs to be able to demonstrate how its programme has achieved value for money. The Department agreed with all of these recommendations and has a plan to implement them by May 2015 at the latest.

Adult social care

3.20 Our report *Adult social care in England: overview* looked at the way that adult social care is organised in England.[24] Adult social care comprises personal care and practical support for adults with physical disabilities, learning disabilities, or physical or mental illnesses, as well as support for their carers. It is one of the main areas of local authorities' spending with an estimated annual net spend of £14.6 billion, although this is only a fraction of the total estimated annual spend. **Figure 11** compares the value of informal care services with state spending on health care.

3.21 The Department of Health is responsible for adult social care policy, while the role of the Department is to allocate and account for funding to local authorities for the provision of care. We reported that the Department acknowledged that local authorities face tough choices to balance their budgets in 2014-15 and 2015-16, and that it is anticipating savings through local integration of health and social care. We cautioned that there is currently limited evidence for successful ways to integrate, and that the benefits of integration take time to manifest.

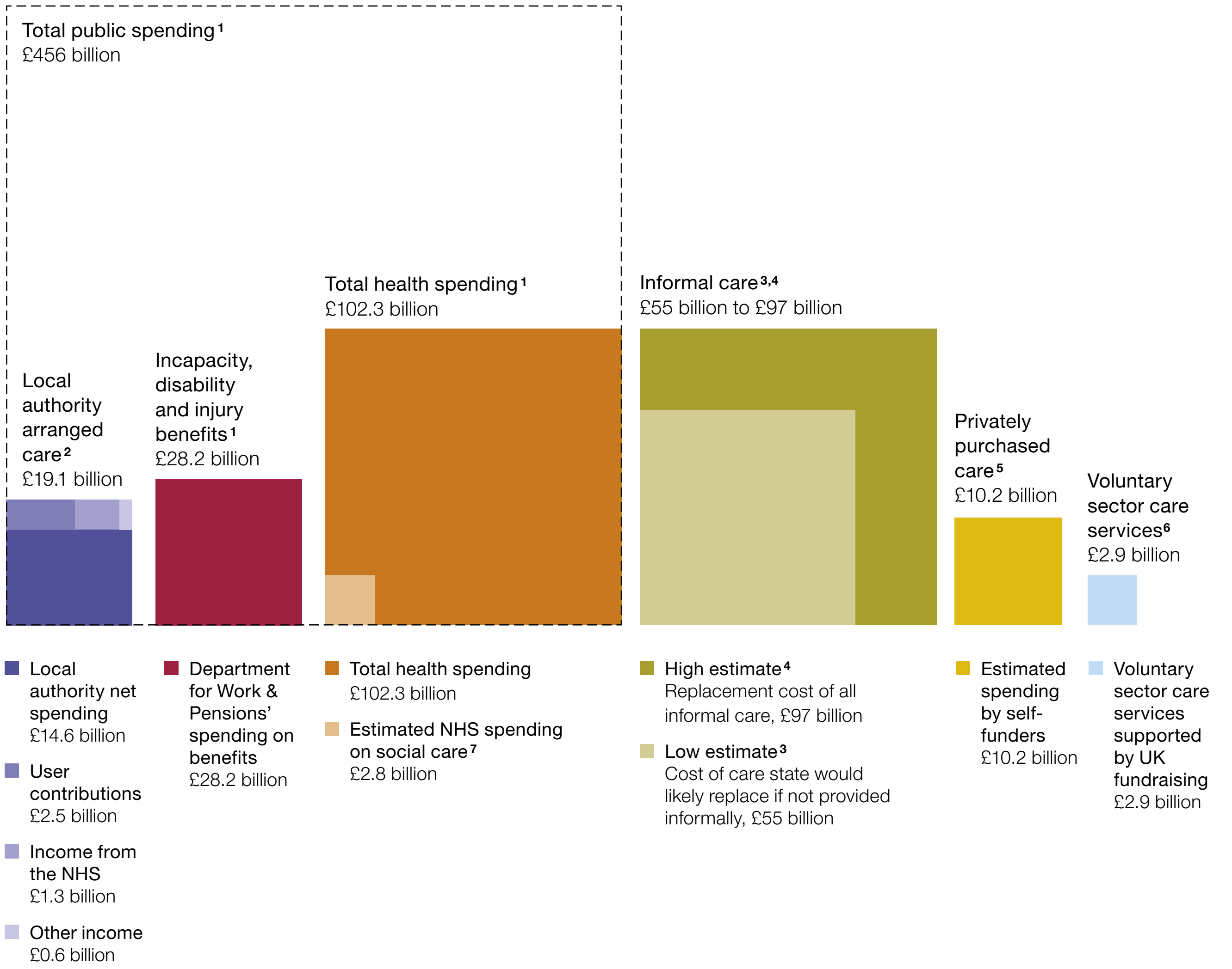
22 Comptroller and Auditor General, *Programmes to help families facing multiple challenges*, Session 2013-14, HC 878, National Audit Office, December 2013.

23 HC Committee of Public Accounts, *Programmes to help families facing multiple challenges*, Fifty-first Report of Session 2013-14, HC 668, March 2014.

24 Comptroller and Auditor General, *Adult social care in England: overview*, Session 2013-14, HC 1102, National Audit Office, March 2014.

Figure 11
Estimates of the value of care for adults

The value of informal care outweighs state spending and compares to spending on health care



Source: 1) HM Treasury, *Country and Regional Analysis 2013*, November 2013; 2) Health and Social Care Information Centre, *Personal Social Services: Expenditure and Unit Costs – England, 2012-13*, December 2013; 3) LaingBuisson, *Domiciliary Care: UK Market Report 2013*, June 2013; 4) Carers UK, *Valuing Carers 2011*, May 2011; 5) Skills for Care, *The economic value of the adult social care sector in England*, February 2013; 6) National Council for Voluntary Organisations, *2010-11 UK estimate for adult and children's social services combined*, UK Civil Society Almanac 2013, accessed at: http://data.ncvo.org.uk/; 7) Department of Health, *2011-12 Programme Budgeting Benchmarking*, December 2012

Local government funding and finance

Council tax support

3.22 On 1 April 2013, the Department transferred responsibility for Council Tax support to local authorities and reduced the amount of funding from the previous Council Tax benefit regime, generating an expected saving of £414 million in 2013-14. Our report on *Council Tax support* looked at whether the Department had achieved its policy objectives while managing the risks to implementation.[25] It also examined the Department's approach to considering the impact of Council Tax support on local authority financial sustainability.

3.23 We found that despite a slow start the Department worked effectively with local authorities to get the reform implemented on time. Given the demanding timescale this was a considerable achievement and ensured the Department achieved its main objectives of contributing to deficit reduction and localising the provision of council tax support. However, it is not clear if all of the longer-term objectives outlined by the Department before localisation will be met, particularly the protection of vulnerable groups from increases in Council Tax. The Department considers scheme design to be a local decision and accepts that this could mean that not all local authorities' schemes will deliver against the full range of the reform's objectives. In the light of this, the Department is not in a position to ensure that it will achieve value for money in the longer term.

3.24 In its report *Council Tax Support*, the Committee of Public Accounts recommended that the Department set clear guidelines on what local authorities could or are obliged to do.[26] It also recommended that the Department collect information that would support an analysis of the impact of the changes and that the Department confirm the timing and scope of its planned independent review. The government agreed with these recommendations. The Department has issued guidance to local authorities and reports that work is under way to better understand the impact of the welfare reforms on the ground and help resolve implementation issues.

Assurance to Parliament on grants to local government

3.25 Our June 2014 report on *Local government funding: Assurance to Parliament* focused on recent changes in funding arrangements for local authorities.[27] We examined the extent to which current assurance arrangements assure Parliament that funding provided by departments to local authorities is used in line with Parliament's intentions and provides value for money.

25 Comptroller and Auditor General, *Council Tax support*, Session 2013-14, HC 882, National Audit Office, December 2013.
26 HC Committee of Public Accounts, *Council Tax Support*, Forty-eighth Report of Session 2013-14, HC 943, March 2014.
27 Comptroller and Auditor General, *Local government funding: Assurance to Parliament*, Session 2014-15, HC 174, National Audit Office, June 2014.

3.26 We found that where departments had set conditions on how a grant was to be spent there was evidence of direct reporting on how that funding had been spent. However, where there were no conditions but there was still an expectation from the Department on how the grant was to be spent, the picture was mixed. Although the Department has monitoring arrangements to assess whether the grants are delivering against its policy objectives, our analysis showed that there is still £2.8 billion of grant where despite there being a clear expectation about how the grant should be used, the Department does not know how the funding has been used.

3.27 We also found that the Department could improve its oversight of the value for money of local authority spending. Despite recent improvements, it is not clear that the Department knows whether the oversight system is effective in securing value for money. The Department believes that the system creates the conditions for local authorities to achieve value for money through pressure to improve outcomes, reduced incomes, and greater transparency of their spending decisions. The Department's monitoring information, however, provides limited insight into whether this is happening in practice because it focuses on financial and service sustainability rather than outcomes.

3.28 Our report listed several actions for the government to consider:

- Assess the appropriateness of continuing to fund local authorities through targeted grants in the context of a locally defined approach to value for money.
- Departments may judge that unringfenced targeted grants are appropriate. If so, they should assess how far reporting arrangements for targeted grants give enough assurance that local authorities spend this funding according to policy intentions.
- Consider value for money as well as financial and service sustainability, when assessing whether the local accountability system is effective.
- Consider updating the guidance it gives other departments on specific grant determinations, as it is now outdated.
- Review their accountability system statements against ongoing changes to public services involving partnerships and cross-border working.

The Department in a cross-government context

3.29 In addition to our work on individual departments, the NAO increasingly looks at performance across government, in order to understand how different departments measure up on important issues. Of the cross-government reports we have published in the last year, *Forecasting in government to achieve value for money*[28] and *Evaluation in Government*[29] have included substantial coverage of the Department.

28 Comptroller and Auditor General, *Forecasting in government to achieve value for money*, Session 2013-14, HC 969, National Audit Office, January 2014.

29 National Audit Office, *Evaluation in Government*, December 2013, available at: www.nao.org.uk/report/evaluation-government/

3.30 Our report on *Forecasting in government to achieve value for money* found that poor forecasting of the costs and benefits of policies and programmes is a problem across government, leading to poor value for money with taxpayers bearing the costs. Our report drew on several examples from across government, and made reference to some of the Department's programmes, including the New Homes Bonus, where an arithmetical error in the impact assessment overstated the estimated number of new homes by about 32,000.

3.31 Our report on *Evaluation in Government* found that while there is an expectation in government guidance that all policies, programmes and projects should be subject to 'proportionate' evaluation, there are gaps in practice with evaluation not always being performed, or not being performed at sufficient quality. The report found that the Department was the only department to have neither an evaluation strategy nor a forward plan of evaluation and only 16% of its impact assessments released in 2009-10 made reference to evaluation evidence.

3.32 Our report did, however, highlight good practice by the Department in the use of evaluation evidence to inform the policy design and implementation of Community Budgets. We suggested that the Department's internal research gateway processes, used to scrutinise evaluation designs and plans before they are commissioned, could be shared across government. We also welcomed the Department's decision to publish previously unreleased research commissioned before the 2010 general election.

NAO work in progress

3.33 In January 2013, we published our report *Financial sustainability of local authorities*.[30] We are now updating and expanding on this work by examining how local authorities are responding to funding reductions and changes. We are also examining how well government departments, coordinated by the Department, understand these impacts. We intend to publish this report in autumn 2014.

3.34 We are also producing two reports due to publish in autumn 2014 that will examine different aspects of health and social care provision. Our forthcoming report on Public Health England: Spending and accountability will examine local authorities' ringfenced funding in 2013-14 and 2014-15. It aims to test both the capacity and capability of this system, as well as how Public Health England is gaining assurance on value for money. The other report will cover health and wellbeing boards and the Better Care Fund. This will look at the 151 boards established in April 2013. We will examine how their set-up is progressing, including their plans to spend the £3.8 billion Better Care Fund from April 2015.

30 Comptroller and Auditor General, *Financial sustainability of local authorities*, Session 2012-13, HC 888, National Audit Office, January 2013.

Part Four

New funding mechanisms: the Department's use of financial instruments

4.1 In last year's Departmental Overview we set out how the Department was building its capability and capacity to provide services through other organisations.[31] The Department is transforming into a smaller organisation that is focused on influencing and enabling its delivery partners.

4.2 As part of this, the Department is moving away from having, predominantly, a grant-giving role and is using new and innovative ways to fund its programmes, including the increase in use of 'financial instruments'. 'Financial instrument' is an accounting term that means, broadly, that an individual or organisation has a contract with another individual or organisation that will lead to them exchanging something of monetary value. These contracts may be relatively straightforward (for example, a loan) or technical and complex (such as payments linked to a future commodity price).

4.3 Financial instruments can be assets or liabilities, and each party involved will see the same contract from a different perspective. For example, the party making a loan has an asset because it will eventually receive cash. The other party has a liability because it must repay the cash.

4.4 This part of the report looks at how the Department is using financial instruments. We examine issues the Department will need to deal with, in making and managing these payments. To illustrate these issues we focus on one type of financial instrument that the Department is using: available for sale assets. This type of asset includes the investment in individual homes through the Help to Buy equity loans scheme. This accounts for most of the increase in the Department's financial instruments during 2013-14.

31 National Audit Office, *Departmental Overview: The performance of the Department for Communities and Local Government 2012-13*, October 2013, available at: www.nao.org.uk/report/departmental-overview-the-performance-of-the-department-for-communities-and-local-government-2012-13/

The Department's use of financial instruments

4.5 The Department has, so far, mainly used financial instruments to support the supply of new housing, through payments the Homes and Communities Agency (the Agency) has made to local authorities, developers, and individual homeowners. These payments include various types of loans. They also include investments in the selling price of individual homes and development sites, where the return depends on the profitability of the linked investment (sometimes called equity investments or equity loans).

4.6 The Department's financial instrument projects and programmes in the next few years are expected to increase to around £24 billion by 2021. The current budgets broken down by type of instruments, are as follows:

- £10 billion for financial guarantees;[32]
- £9.7 billion for the Help to Buy equity loan scheme; and
- £4.2 billion for other loans and investments (the majority through the Build to Rent and Large Sites schemes).

4.7 The amount of the guaranteed £10 billion that the Department will have to pay will be influenced by the creditworthiness of the borrowers, the quality of the collateral supporting the financial instruments and a number of factors that are not within the Department's control (such as whether the housing market suffers a downturn). The Department will need to monitor the credit status of the entities with which it has entered into contracts, to determine if it will have to make future payments to some of these entities' lenders and ensure it has the resources to do so.

Financial assets: in summary

4.8 As at the end of March 2013-14, the majority of the Department's financial assets (by value) were 'available for sale' assets.[33] The Departmental group held some £1,554 million of this type of asset.[34] 'Available for sale' means that the financial instrument has not been obtained for short-term profit making and does not have fixed dates for payment. This classification is used for the Help to Buy equity loan scheme, where the future return to the Department depends on the value of the individual property on the date the loan is repaid.

32 These financial guarantees are to help build new homes for housing associations and the private rented sector. A financial guarantee is a promise that, if an entity cannot repay its lender, then the government will pick up the bill.

33 There are 4 different types of financial asset that can be held by an entity. In addition to 'available for sale', there are 'loans and receivables', 'held to maturity' and 'fair value through profit or loss'. The category that each asset would fall into, and the disclosure requirements that result, can be determined by understanding what the entity intends to do with the asset and whether or not there is an agreed timetable for repayment.

34 The Department's accounts also identify £360 million of investments in 2013-14.

4.9 Accounting for assets is different from accounting for grants. Unlike a grant the Department expects, at the point it makes the payment, that it will receive a financial return in the future. Financial assets are, therefore, included in the Department's annual accounts on its statement of financial position until the benefit is received or is no longer likely to be received. The Department discloses in its accounts a value that is an estimate of the amount it would receive for each asset if the investment was settled on that date. In contrast, grants are included in the statement of comprehensive net expenditure as an in-year cost to the Department.

Help to Buy equity loans

4.10 Most of the Department's available for sale financial assets are investments in the market value of individual homes – worth nearly £1.4 billion in March 2014.

4.11 The Department has held investments of this type for several years through various schemes. However, the value of its assets has started to increase because of the Help to Buy equity loan scheme (the scheme) (**Figure 12**). The Department launched the scheme in 2013-14 with a budget of £3.7 billion to 2015-16. It later extended this to 2019-20 with a further £6 billion in the March 2014 Budget. Some 19,401 households completed a purchase through the scheme in 2013-14. The Agency, which administers the scheme for the Department, made loans totalling £858 million to these buyers.

4.12 The Department uses independent financial institutions, such as participating banks, to provide lending to individuals under the Help to Buy scheme. As a result, the performance of this scheme is partly reliant on credit assessments and process management performed by these financial institutions.

Figure 12
Value of available for sale financial assets at March 2014

Type of asset	Value at March 2014 (£m)	Value at March 2013[1] (£m)	Change since 2012-13 (%)
Help to Buy[2]	834.7	–	n/a (New in 2013-14)
Other investments in individual homes[3]	532.5	507.3	+ 5
Other types of investment[4]	186.7	159.6	+ 17
Total	**1,553.9**	**666.9**	**+ 133**

Notes

1 These values have not been adjusted for inflation.

2 The difference between the value of £834.7 million and the £858 million of expenditure reflects the net change in the value of the investment.

3 'Other investments in individual homes' includes FirstBuy, HomeBuy Direct, and the First Time Buyers' Initiative.

4 'Other types of investment' mainly represents the Department's share of the future profitability of land under development.

Source: National Audit Office analysis of the Homes and Communities Agency's *Annual Report and Financial Statements 2013-14*, June 2014

4.13 The loans made under the scheme are financial assets because the Department expects to make a financial return. The scheme involves making equity loans to individual homebuyers for up to 20% of the purchase price of newly-built properties. Buyers typically provide a 5% deposit and finance the remaining 75% through a mortgage (that is not provided by the government). Homebuyers can choose to repay the equity loan at any time but must repay it in full when they redeem their original mortgage, for example if they sell the home. As an equity investment, the amount the buyer repays to the Department changes with the home's value and may be more or less than the amount originally loaned. The exact amount and timing of the repayment to the Department is, therefore, uncertain when the Department makes the loan.

4.14 The loan is interest free for the first five years. After this, the Department charges each homeowner an annual fee linked to the value of the outstanding investment and inflation. This fee does not reduce how much the homeowner must pay when they repay their investment.

4.15 In our report *The Help to Buy equity loan scheme* we examined how well the Department and the Agency designed and implemented the scheme to improve affordability and accessibility of homes and stimulate new housing supply.[35] We also looked at how the scheme operates and compared it with other home ownership support initiatives. **Figure 13** shows that the rate of completions has not significantly increased or decreased from that in 2013, and uptake has been stable.

Financial risk

4.16 The Department is exposed to a number of risks on its Help to Buy investments, related to the circumstances of individual homeowners, the state of the economy, and the characteristics of the collection of investments:

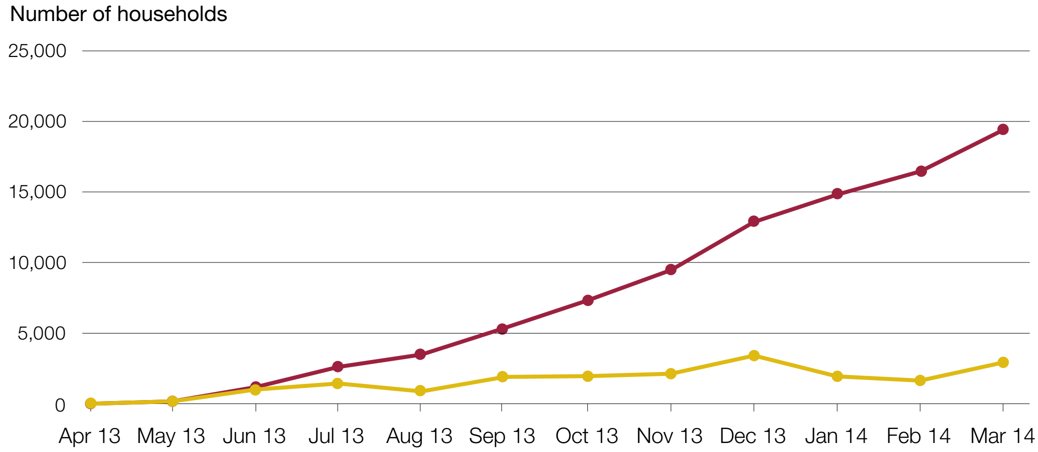
- **Credit risk** – related to the potential loss due to individual homeowners that have used Help to Buy to purchase their house being unable to meet their financial obligations related to the Help to Buy scheme; and
- **Systemic market risk** – primarily a result of changes to the wider economy that are outside of the control of the individual homeowner, such as a national (or regional) adjustment in house prices.

4.17 For individual credit risk, the Department will not recover all of its original investment if the property sells for less than the purchase price. This might happen where the mortgage lender repossesses the home and sells it for less to recover its investment quickly. Or the homeowner may sell for less because they cannot afford their mortgage payments. This risk for the Department is mitigated partly because the Department has many investments in individual properties across England. The credit risk from a single investment failing is lower where the investments are many, are of low value, and a failure in one does not lead to failure in others.

35 Comptroller and Auditor General, *The Help to Buy equity loan scheme*, Session 2013-14, HC 1099, National Audit Office, March 2014.

Figure 13
Number of Help to Buy completions in 2013-14 by month

The number of buyers accessing the scheme has increased steadily



	Apr 13	May 13	Jun 13	Jul 13	Aug 13	Sep 13	Oct 13	Nov 13	Dec 13	Jan 14	Feb 14	Mar 14
Cumulative number of households	–	175	1,175	2,602	3,480	5,375	7,331	9,464	12,875	14,823	16,465	19,401
Number of households	–	175	1,000	1,427	878	1,895	1,956	2,133	3,411	1,948	1,642	2,936

Note

1 19,401 completed Help to Buy equity loan sales between 1 April and 31 March 2014.

Source: National Audit Office analysis of Homes and Communities Agency published data

4.18 However, if the national housing market were to have another sudden shock, then the Department would most likely see the value of its investment portfolio fall. The Department estimated that, had house prices in England been 10% lower at the end of 2013-14, the value of its investments would have fallen by £231 million.[36] This is because the Department's investment is in the value of property at any given time. A decrease in the market price will lead to a loss of anticipated economic benefit from the investment portfolio.

4.19 Although the value of the Department's investment in Help to Buy will change according to movements in house prices, a significant fall in house prices will not necessarily mean that the Department will lose money. Ultimately, the Department's return on its investment will depend on when homeowners decide to move or repay the loan and how much the property is worth at that point in time.

36 Department for Communities and Local Government, *Annual Report and Accounts 2013-14*, July 2014.

Challenges for managing recoverable investments

4.20 As well as uncertainty in the amount and timing of its financial returns, administering a scheme like Help to Buy has challenges that are different to a traditional grant programme.

4.21 The Department can estimate its investment values at any point in time. However, the uncertainty of how the housing market will perform and when homeowners might repay their equity loans has a significant impact on the Department's ability to forecast how much money it will receive from its investments in any given period. This means that the Department will find it difficult to know how much funding it needs to request from HM Treasury to run its programmes, because it cannot be certain how much money it will receive from the repayment of these available for sale financial assets.

4.22 The Department also has to manage uncertainty in how much money is required in a given period for some of its recoverable investments. The Help to Buy scheme is 'demand-led'. As long as buyers make a valid application, the Department must make the payment. Unlike grants, where the Department can choose which organisations or individuals to support (and control spending in a period), commitments under these types of financial instrument need to be carefully forecast to ensure there is sufficient and appropriate cash and agreed budget for the level of demand received.

4.23 As the Department's portfolio of financial instruments increases, so too will its receipts from interest and fee income, together with capital receipts from the repayment of investments. In this situation, the Department must develop robust management information to understand the amount and timing of money it is likely to get. The Agency is implementing two new management information systems to manage and monitor its investment portfolio in individual homes and all other types of investment. The Department reports that it is in the process of implementing a new risk management framework for financial instruments.

4.24 In our report on the *Help to Buy equity loan scheme* we said that a clear plan for implementation would not only include objectives and predicted outcomes, but also people needed and their skills.[37] The Department, with the Agency, identified a gap in people resources to administer the scheme long term after it was launched. The Agency is recruiting people it needs to administer the scheme and its other financial instruments and the Department reports that many of those needed have joined over the last 6 months.

37 Comptroller and Auditor General, *The Help to Buy equity loan scheme*, Session 2013-14, HC 1099, National Audit Office, March 2014.

Appendix One

The Department's sponsored bodies at 1 April 2014

Arm's-length bodies	**Changes since 1 April 2013**
Executive Agencies	
1 Planning Inspectorate	No change.
Trading Fund	
2 Queen Elizabeth II Conference Centre	No change.
Executive non-departmental public bodies (NDPBs)	
3 Homes and Communities Agency	No change.
4 The Housing Ombudsman	The Independent Housing Ombudsman Ltd closed and its functions transferred to The Housing Ombudsman on 1 April 2013.
5 The Leasehold Advisory Service	The future of this body is under consideration and the Department is looking at the appropriate way to provide its services.
6 Valuation Tribunal Service	The future of this body is under consideration and the Department will look at the appropriate way to provide its services as part of the 2014-15 Triennial Review programme.
7 West Northamptonshire Development Corporation	Ceased operations on 31 March 2014 when the assets and liabilities were devolved to local government. The organisation was closed on 31 July 2014.
Advisory bodies	
8 Building Regulations Advisory Committee	No change.
Public Corporations	
9 Architects Registration Board	The future of this body is under consideration and the Department is looking at the appropriate way to provide its services as part of the periodic review.
10 Audit Commission for Local Authorities and the National Health Service in England	From 1 September 2012, local public bodies will have a private sector auditor appointed by the Audit Commission. A much smaller Audit Commission remains in place in England to oversee the contracts and other statutory functions until its operational closure (planned for March 2015).
Tribunals	
11 Valuation Tribunal for England	The future of this body is under consideration and the Department will look at the appropriate way to provide its services as part of the 2014-15 Triennial Review programme.
Other body	
12 Commission for Local Administration in England (known as the Local Government Ombudsman)	Responsibility for receiving complaints from local authority tenants was transferred to the Independent Housing Ombudsman on 1 April 2013

Appendix Two

Results of the Civil Service People Survey 2013

Survey question (% strongly agree or disagree)	Department for Communities and Local Government (excluding agencies)	Civil Service benchmark
Leadership and managing change		
I feel that my department as a whole is managed well	**43**	43
Senior managers in my department are sufficiently visible	**53**	51
I believe the actions of senior managers are consistent with my department's values	**42**	43
I believe that the board has a clear vision for the future of my department	**39**	42
Overall, I have confidence in the decisions made by my department's senior managers	**39**	41
I feel that change is managed well in my department	**29**	29
When changes are made in my department they are usually for the better	**20**	27
My department keeps me informed about matters that affect me	**60**	58
I have the opportunity to contribute my views before decisions are made that affect me	**41**	36
I think it is safe to challenge the way things are done in my department	**39**	38
Organisational objectives and purpose		
I have a clear understanding of my department's purpose	**75**	85
I have a clear understanding of my department's objectives	**72**	80
I understand how my work contributes to my department's objectives	**78**	83

Notes

1 These are summary results of the Civil Service People Survey 2013. Not all question scores have been included.

2 The score for a question is the percentage of respondents who strongly agree or agree to that question.

Source: *Civil Service People Survey 2013*, available at: www.civilservice.gov.uk/about/improving/employee-engagement-in-the-civil-service/people-survey-2013, accessed 28 August 2014

Department for Business, Innovation & Skills (excluding agencies)	Cabinet Office (excluding agencies)	Department for Culture, Media & Sport (excluding agencies)	Ministry of Defence (excluding agencies)	Department for Education	Department of Energy & Climate Change	Department for Environment, Food & Rural Affairs (excluding agencies)	Foreign & Commonwealth Office (excluding agencies)	Department of Health (excluding agencies)	HM Revenue & Customs	HM Treasury	Home Office (excluding agencies)	Department for International Development (excluding agencies)	Ministry of Justice (excluding agencies)	Department for Transport (excluding agencies)	Department for Work & Pensions (excluding agencies)
45	39	28	24	32	42	35	57	41	26	67	37	64	48	41	40
55	53	42	32	41	63	49	60	57	38	75	47	69	55	57	39
44	43	37	29	35	50	41	57	46	32	63	41	62	49	45	39
48	28	23	27	29	24	28	53	32	28	54	32	55	39	34	40
42	41	30	22	30	44	34	51	43	23	64	35	57	43	37	33
29	28	20	14	21	28	23	40	26	20	47	22	43	32	25	34
24	25	16	11	16	27	16	35	18	17	40	19	34	27	21	30
65	59	51	45	53	69	58	62	56	45	70	57	69	59	60	58
38	34	30	23	29	42	31	44	37	25	48	34	48	37	33	35
40	42	32	33	31	48	38	46	36	33	58	37	44	39	40	42
85	73	70	82	83	89	77	84	77	80	93	84	94	82	80	85
79	63	62	74	77	86	74	81	73	77	88	81	92	77	75	83
84	73	74	79	81	87	79	84	78	80	88	82	91	80	79	84

Appendix Three

Publications by the NAO on the Department since we last reported

Publication date	Report title	HC number
Reports presented to Parliament		
25 June 2014	Local government funding: Assurance to Parliament	HC 174
13 March 2014	Adult social care in England: overview	HC 1102
6 March 2014	The Help to Buy equity loan scheme	HC 1099
25 February 2014	Progress report on the Regional Growth Fund	HC 1097
13 December 2013	Council Tax support	HC 882
6 December 2013	Funding and structures for local economic growth	HC 542
3 December 2013	Programmes to help families facing multiple challenges	HC 878
Other published reports		
28 May 2014	The NAO's role in local audit	www.nao.org.uk/report/the-naos-role-in-local-audit/

Appendix Four

Cross-government reports of relevance to the Department

Publication date	Report Title	HC number
Reports presented to Parliament		
31 January 2014	Forecasting in government to achieve value for money	HC 969
Other published reports		
28 May 2014	Evaluation in government	www.nao.org.uk/report/evaluation-government/

Where to find out more

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

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