



National Audit Office

DEPARTMENTAL OVERVIEW

The performance of the
Department for Business,
Innovation & Skills 2012-13

JANUARY 2014

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

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Amyas Morse, is an Officer of the House of Commons and leads the NAO, which employs some 860 staff. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of almost £1.2 billion in 2012.

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Introduction

Aim and scope of this briefing

- 1** The primary purpose of this report is to provide the Business, Innovation & Skills Select Committee with a summary of activity and performance of the Department for Business, Innovation & Skills (the Department) since September 2012, based primarily on published sources, including the Department's own accounts and the work of the National Audit Office (NAO).
- 2** Part One of the report focuses on the Department's activity since September 2012. Part Two concentrates on NAO analyses of that activity.
- 3** The content of the report has been shared with the Department to ensure that the information presented is factually accurate.

Part One

About the Department

The Department's responsibilities

1.1 The Department for Business, Innovation & Skills (the Department) has the core objective of delivering economic growth. To achieve this, the Department invests in skills and education, promotes trade and encourages economic innovation and business growth. The Department also protects consumers and reduces the impact of regulation.

1.2 The Department is responsible for:

- working with providers of further and higher education to give students the necessary skills to succeed in a competitive economy;
- supporting innovation and developing the UK's science and research industry;
- ensuring consumer law is equitable and championing consumer rights;
- supporting British businesses to increase their productivity; and
- competitiveness and influencing better regulation in business.

1.3 Government departments are increasingly presented with the challenge of delivering their objectives with reduced administration budgets. This challenge is particularly striking for the Department, with its diverse range of responsibilities.

1.4 The Department faces various additional strategic challenges, which must be managed effectively to deliver its objectives. Some of the Department's core objectives are impacted by factors over which it has limited control, for example the performance of the wider global economy.

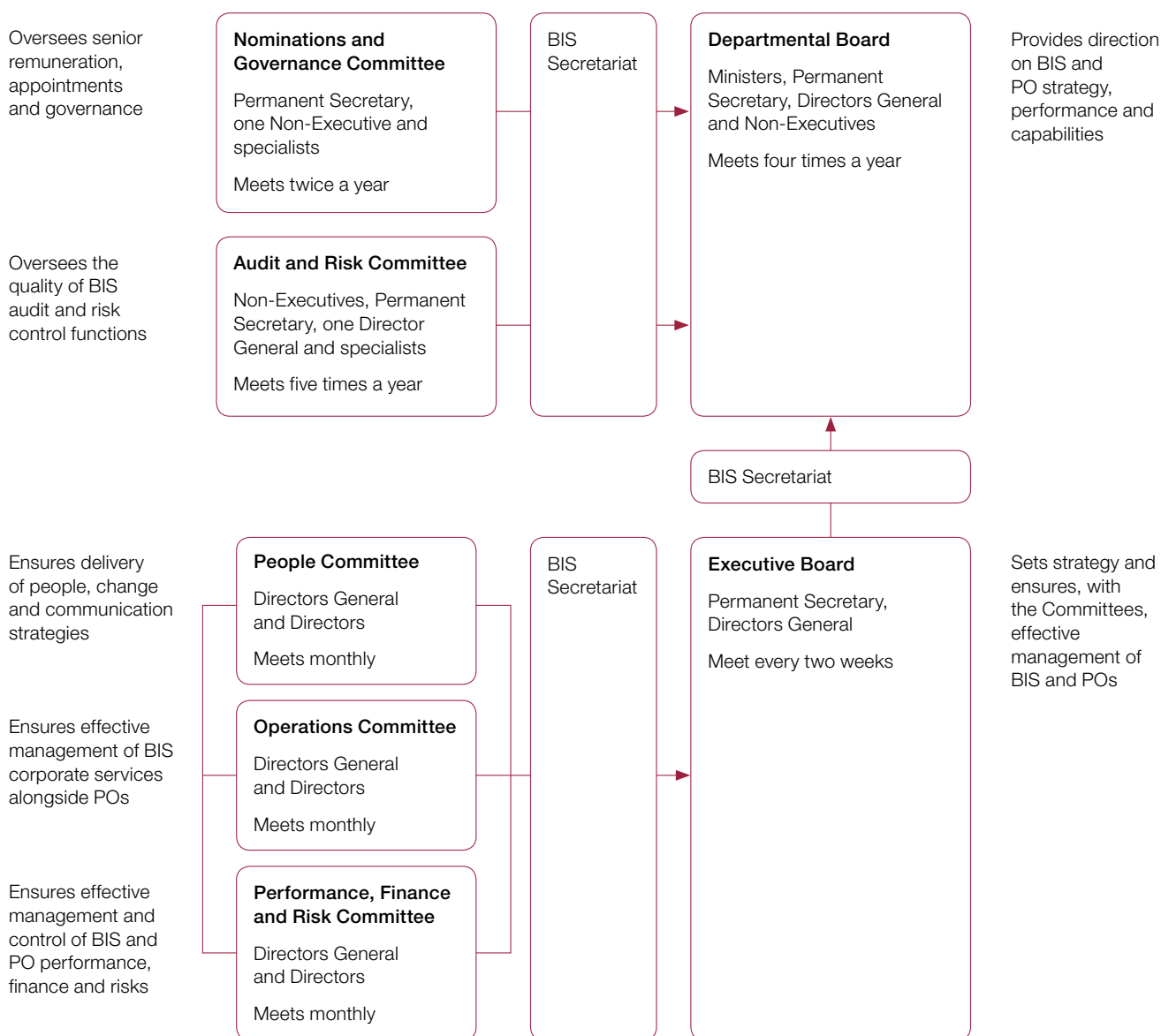
How the Department is organised

1.5 The Departmental Board (the Board) comprises Ministers, the Permanent Secretary, Directors General and Non-Executive Directors. The Board provides strategic leadership and is responsible for performance, risk, delivery, capabilities and oversight of partner organisations (POs). The Board is scheduled to meet four times a year. In 2012-13, the Board met seven times; the three additional meetings included two half-day strategy sessions at which the Board discussed the Industrial Strategy and local growth.

1.6 The Departmental Board delegates some responsibilities to the Executive Board, which ensures effective management of the Department and its partner organisations, as well as influencing the Department’s strategic direction.

1.7 The Department’s boards, their respective responsibilities, membership and the relationships between them are illustrated in **Figure 1**. The current structure was put in place in April 2012.

Figure 1
The Department’s organisational structure



Note
1 Arrows denote reporting relationships.

1.8 The Department devolves most of its delivery to a diverse set of partner organisations, which are listed in Appendix One. The largest spending bodies are the Higher Education Funding Council for England (HEFCE), the Skills Funding Agency (SFA) and the Research Councils. A range of smaller bodies such as the Student Loans Company (SLC), play important roles in delivering the Department's objectives. **Figure 2** overleaf shows the Department's partner organisations split by body type and by sector.

Where the Department spends its money

1.9 The Department spent £22.8 billion gross in 2012-13 (£24.3 billion in 2011-12).¹ The Department's expenditure for 2012-13 is shown by partner organisation in **Figure 3** on page 9. The majority of the Department's programme expenditure (approximately £15 billion) is paid out as grants. Expenditure also includes significant non-cash items, primarily the impairment and amortisation of the student loan portfolio: £2.4 billion and £1.5 billion respectively, which represent the cost to government of issuing the loans.²

1.10 In 2012-13, the departmental group employed around 24,100 staff, of which almost 3,300 worked in the core Department. Total staff costs in 2012-13 were £1.1 billion.

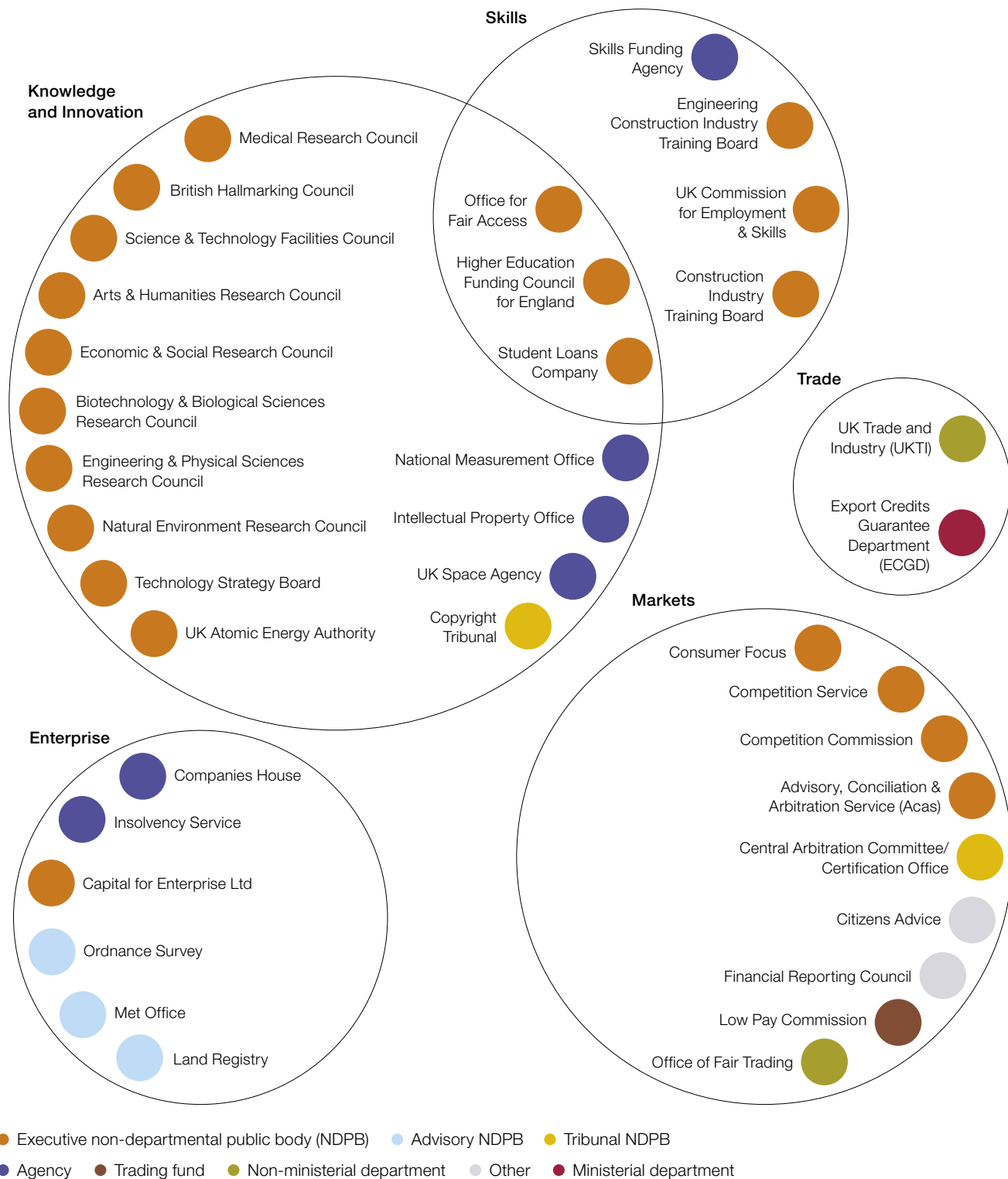
1.11 For the period April 2013 to September 2013, the Department reports two significant variances against its annual plan for 2013-14:

- a** A £700 million underspend is forecast against the Green Investment Bank; the budget for this will be rolled forward into 2014-15 under a flexibility agreement with HM Treasury.
- b** Royal Mail sale proceeds of approximately £2 billion, and the repayment of shareholder loan income (£472 million), have contributed to forecast underspends of capital expenditure. These are one-off occurrences which were not originally included in the annual plan for 2013-14.

¹ Department for Business, Innovation & Skills, *Annual Report and Accounts 2012-13* Statement of Comprehensive Net Expenditure.

² Non-cash expenditure represents a diminution of the financial value of the assets but requires no outlay of cash by the Department.

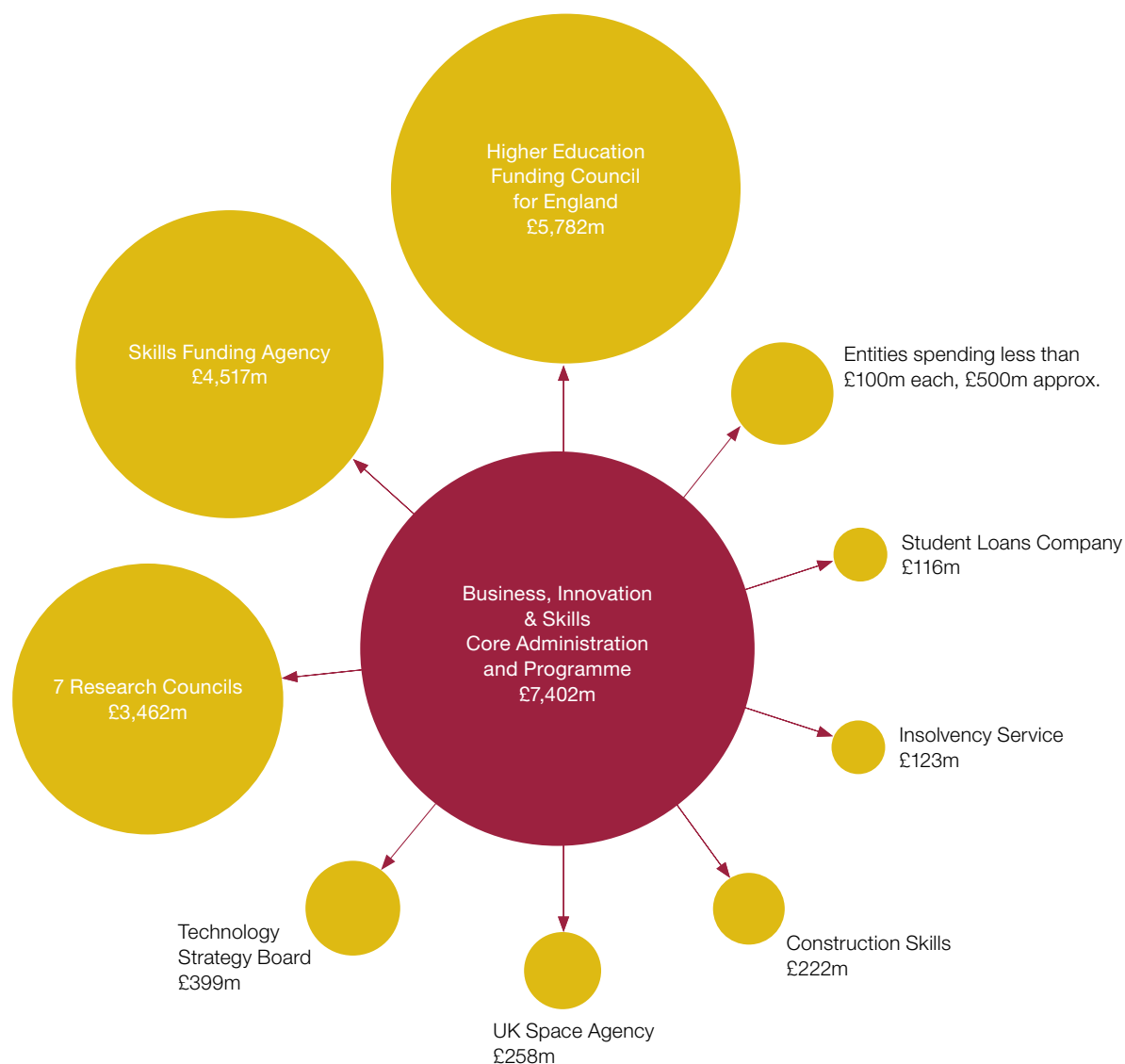
Figure 2
Department partner organisations by type and sector



Source: Department for Business, Innovation & Skills 2012-13

Figure 3

The most significant spending bodies within the Business, Innovation & Skills group, 2012-13

**Notes**

- 1 Business, Innovation & Skills core expenditure is gross expenditure as stated in the 2012-13 audited accounts (Statement of Comprehensive Net Expenditure). Expenditure for partner bodies is based upon gross expenditure as stated in their 2012-13 audited accounts. For CITB Construction Skills, which draws its accounts up to 31 December, gross expenditure from the 2012 audited accounts is used.
- 2 Note that the amounts will not reconcile exactly to total expenditure due to the impact of eliminating intra-group transactions. Such adjustments are included within the balancing figure for smaller entities.
- 3 In addition to the above bodies the Department is involved in policy that concerns the activities of a number of bodies that are independent of the Department. These bodies include Exchequer-funded non-ministerial departments (Office of Fair Trading and the Export Credit Guarantee Department). In addition, Companies House, the Intellectual Property Office, the Met Office, the Land Registry and Ordnance Survey are sponsored by the Department but are trading funds and so are financially independent.
- 4 The Department, along with the Foreign & Commonwealth Office (FCO), also meets the administration costs of UK Trade and Investment, with the Department responsible for UK costs and FCO responsible for overseas costs and costs relating to their employees based in the UK.
- 5 During 2012-13, the Department paid £146 million to acquire shares in the Green Investment Bank. This is not shown, although the Green Investment Bank's gross expenditure is included within expenditure of entities spending less than £100 million each.

Source: Department for Business, Innovation & Skills and partner organisation Annual Reports and Accounts 2012-13

1.12 The Department has a large and complex balance sheet. The majority of the assets relate to student loans investments, which were valued at £30.7 billion. At 31 March 2013, the Departments net assets were £43.5 billion (up from £35.6 billion in 2011-12).

The increase in net assets was primarily driven by:

- changes to the student loan book worth £2.6 billion as a result of new loan issues and changes to the forecasting and modelling of the loan book, which had an impact on the amount by which it is written down each year;³
- assets of the Royal Mail Pension Plan (RMPP) brought into and sold from the group during the year, as a result of the government's commitment to relieve the Royal Mail of its historic pension deficit. The residual assets had a year-end value of £4 billion and will also be sold; and
- an increase in the value of Royal Mail Holdings by £2.5 billion as a result of a change to how its value is recognised in the accounts, from the historic cost of the investment to its fair market value.⁴

Recent and planned changes to the Department's spending

1.13 As a consequence of the Spending Review 2010 the Department's resources are falling in nominal terms, from £16.9 billion in 2010-11 to £14.2 billion in 2014-15.⁵

The spending review required:

- A reduction of the Department's resource budget by 25 per cent and capital spending cut by 44 per cent, in real terms.⁶
- A reduction of the Department's administration budget by 40 per cent, in real terms.

1.14 The Department's savings have primarily come from the reforms to higher education and further education. Some of the most significant changes planned by the Department due to be completed by the end of the 2014-15 period include:

- A reduction of £2.9 billion (40 per cent in real terms) in the higher education budget, excluding research funding.
- A reduction of £1.1 billion (25 per cent in real terms) in the further education resource budget, but with spending on adult apprenticeships planned to increase by up to £250 million.

3 Further details of the Department's modelling and assumptions can be found in Note 20 of the Department for Business, Innovation & Skills, *Annual Report and Accounts 2012-13*.

4 Fair market value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

5 These figures are DEL expenditure with the exception that write-off expenditure for Student Loans (which is DEL) is excluded. The figures therefore differ from the earlier quoted £22.8bn gross expenditure for the year 2012-13 which includes all AME and DEL expenditure.

Departmental Expenditure Limits, known as DEL, are government budgets which are allocated to, and spent by, departments based on the outcome of spending reviews.

Annually Managed Expenditure, known as AME, is more difficult to control or predict than expenditure covered by DEL budgets and often involves demand-led programme costs where planned expenditure can require more frequent revisions.

6 Resource and admin spending is money that is spent on day-to-day resources and operations. Capital spending is money that is spent on investment with the intent of generating future economic benefits.

1.15 From autumn 2012, higher education institutions have been able to charge students up to £9,000 per annum, provided criteria on widening participation and fair access are met for undergraduate courses. Further education savings are being delivered through efficiencies to the adult skills and non-participation programmes and the introduction of loans at Level 3 and 4 courses (e.g. A levels). Business Secretary Vince Cable announced the cessation of plans for loans covering apprenticeships for students aged 24 and over in December 2013.

1.16 The Department said it had made significant progress towards accomplishing the goals of the Spending Review in 2012-13.⁷ Eighty per cent of plans to reduce administrative costs are reported as complete, with the remaining savings due to be made over the next two years. Notable savings achieved in 2012-13 include:

- reducing higher education grant payments by £944 million;
- closing the Regional Development Agencies to deliver £220 million savings in administration costs;
- a reduction in the number of Departmental public bodies from 60 to 43. Savings are estimated at approximately £64 million for 2012-13; and
- disposing of 61 leases as part of a rationalisation of the Department's estate, resulting in savings of £30 million.

1.17 The Department brought down resource DEL expenditure by reducing higher education grants to universities. This was funded by increasing student loans, which subsequently increased the Department's requirement for capital AME.

1.18 Key elements of the Department's settlement in the *Spending Review 2013* include maintaining resource and capital spending on science, with additional resource funding for the Technology Strategy Board of £185 million.

1.19 The overall summary of the Department's settlement in the 2013 Spending Review is as follows:

- Resource DEL: £13 billion – a reduction of 4.4 per cent.
- Capital DEL: £2.5 billion – an increase of 19 per cent.
- Administration budget: £557 million – a reduction of 8.1 per cent (from 2014-15).

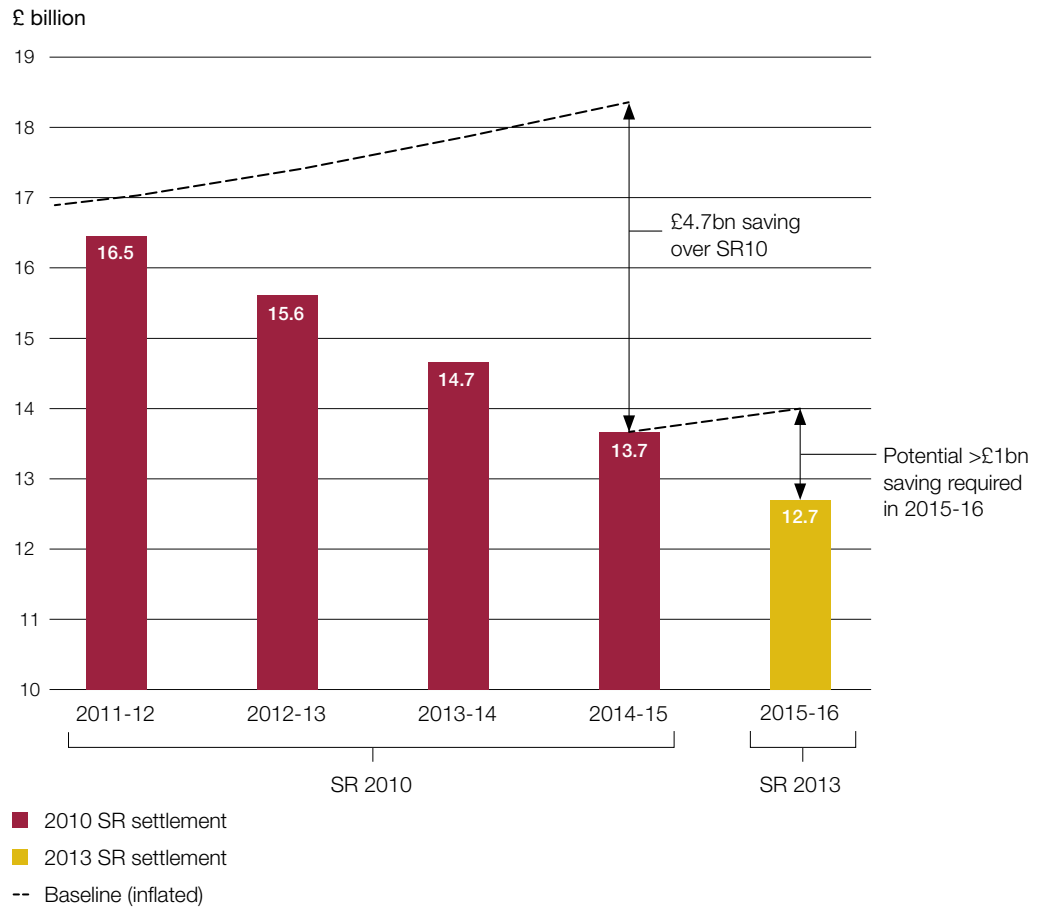
⁷ Department for Business, Innovation & Skills, *Annual Report and Accounts 2012-13*, Financial Overview.

1.20 Figure 4 illustrates the changes to the Department’s budgets as a result of the 2010 and 2013 spending reviews. A £4.7 billion saving, in real terms, is targeted for the period of the Spending Review 2010. The Department anticipates up to £1 billion further savings to be required for 2015-16.

Figure 4

Changes to the Department’s DEL budget as a result of the 2010 and 2013 spending reviews

A £4.7 billion saving is targeted for the period of the Spending Review 2010, with a further saving of up to £1 billion anticipated for 2015-16



Note
 1 Resource DEL – Resource Departmental Expenditure Limit.

Source: The Department

Policy and delivery: major developments in 2012-13

1.21 The Department is going through significant change, with various reforms and major projects under way, including:

1.22 The Industrial Strategy. The government's approach to industrial strategy was set out in September 2012. The strategy focuses on identifying sectors that offer growth opportunities, supporting emerging skills and technologies, securing access to finance and recognising the role of public procurement. Eleven sector strategies have been set out by the Department, of which six have been published as at January 2014.⁸

1.23 Business Bank. In March 2013, the Department published a strategy update for the Business Bank detailing its objectives, success measures and timetables. The Business Bank is intended to support finance for small and medium-sized UK businesses using £1 billion of new government capital, £2.9 billion of existing capital, and private sector contributions.

1.24 In November 2013, the British Business Bank announced via its website the business bank investment programme's first commitments: two funds awarded a total of £45 million, both of which are anticipated to commence lending to smaller business in the first quarter of 2014.

- Thirty million pounds of funding is to be committed to a fund advised by Praesidian Capital. Praesidian Capital is a US fund manager which is expanding its US SME lending model including the launch of a new fund with a dedicated office in London to provide finance to smaller and medium-sized UK businesses.
- Fifteen million pounds is to be committed to BMS Finance, an independent, specialist finance company focused on lending to smaller and medium-sized UK businesses with high growth potential and nearing profitability.

1.25 Reform of Higher Education. In March 2013, the Higher Education Funding Council for England (HEFCE) published a review of the impact of the 2012 reforms in higher education.⁹ The report includes findings on the demand for higher education in England, and impacts on different groups of students, the higher education sector and funding and financial sustainability.

1.26 HEFCE reported an increase in full-time undergraduate applications for 2013-14 (some 455,000 UK and EU applicants) following a decline in 2012-13. However, overall there were some 34,000 fewer full-time applications than in 2011-12. Part-time entrants to undergraduate and postgraduate courses had decreased by 40 per cent (105,000) and 27 per cent (25,000) respectively, since 2010-11.

⁸ A full list of the 11 sector strategies is available on the Department's website at: www.gov.uk/government/policies/using-industrial-strategy-to-help-the-uk-economy-and-business-compete-and-grow/supporting-pages/developing-strategic-partnerships-with-industry.

⁹ Higher Education Council for England, *Higher education in England, Impact of the 2012 reforms*, March 2013.

1.27 Reform of Further Education. In March 2013, the Department announced that it had accepted the recommendations in the Richard Review of Apprenticeships.¹⁰ Recommendations included focusing apprenticeships on the skills and opportunities available to apprentices following their completion; using independent assessments that would be respected by industry; ensuring that government creates the right incentives for apprenticeship training; and encouraging diversity and innovation in apprenticeships.

1.28 The Heseltine review – ‘No stone unturned in pursuit of growth’ was published in October 2012.¹¹ The report recommends very significant devolution of funding from central government to Local Enterprise Partnerships (LEPs), so that government investment is responsive to the needs of communities and can be augmented by the private sector. At a national level the report states that the government must maintain control of, and demonstrate strong leadership in promoting, “important, large-scale infrastructure projects”. The government’s response is covered later in this report.

1.29 Green Investment Bank (GIB). The Department received state aid approval for the GIB from the European Commission in October 2012. In July 2013, it was announced that Tony Poulter (previously Global Head of Consulting at PricewaterhouseCoopers) would take the position of Senior Independent Director at the bank. The GIB has been allocated £3.8 billion of government funding for the period to March 2016.

1.30 Royal Mail Floatation. Shares in Royal Mail were issued for sale, with conditional trading (for share purchases via a broker) commencing on 11 October 2013, and full trading commencing on 15 October 2013. The initial sale price for private investors in the conditional trading was 330 pence per share. Investors who applied for between £750 and £10,000 of shares each received 227 shares worth £749.10. Investors who applied for in excess of £10,000 of shares received none.

1.31 At the end of the conditional trading period (14 October 2013) share prices had risen by almost 40 per cent. The share price continued to rise once full trading commenced, reaching a peak value of 596.5 pence per share in December 2013. The significant rise in share price has given rise to questions in the media as to whether the taxpayer has received value for money as a result of the sale process.

1.32 The Department concluded the **Student Loans** portfolio sale of the remaining 17 per cent of the mortgage loan book in November 2013. The loans were sold for £160 million to Erudio Student Loans following a competitive bidding process. The loans had a face value of approximately £890 million. The government is currently in the process of exploring options for the potential future sale of the pre-2012 income contingent loan book, which represents the majority of the portfolio’s book value as at 31 March 2013. On 5 December 2013, the Chancellor of the Exchequer’s Autumn Statement reaffirmed the government’s intention to sell, with the first tranche of pre-2012 income contingent loans expected to be sold by the end of 2015.

¹⁰ Department for Education and Department for Business, Innovation & Skills, *The Future of Apprenticeships in England: Next Steps from the Richard Review*, March 2013

¹¹ The Rt Hon the Lord Heseltine of Thenford CH, *No stone unturned in pursuit of growth*, October 2012.

The Department's digital strategy

1.33 By December 2012, each government department was required to produce a digital strategy, an indication of the central role that digital services now play in government business. In this section, we briefly consider the main elements of the Department for Business, Innovation & Skills' digital strategy.

1.34 The Department plans to deliver a programme to redesign all major services. The Department has set out its vision and intent separately for its four main customer groups: businesses, students and learners, businesses and workers, and consumers. The Department has identified the different services it provides to these groups: transactional services, guidance on legislation/regulations and rights/responsibilities, information, advice and support, and engagement in policymaking.

1.35 The Government Digital Strategy required the seven largest departments to identify three 'exemplar' projects for service redesign. The Department has identified four exemplar projects and included a fifth project on student finance that was already under way. The four projects are set out below and these organisations process most of the Department's transactions by volume.

Project	Description
Online management of intellectual property rights (Intellectual Property Office)	Companies, intermediaries and individuals will be able to apply for, track and manage their patents, trademarks and designs in a simple to use and integrated online service that is far easier and more convenient to use than the current paper-based approach.
Redundancy Payments (Insolvency Service)	Employees who are facing the challenge of redundancy will be able to apply for and access financial support from government in a more immediate and easy to navigate manner than current channels allow, as will the insolvency practitioners administering cases.
Property Register (Land Registry)	Homebuyers and business intermediaries will be able to search for, gain data on and register property in the UK without the need for the delays inherent in current disjointed, paper-based systems.
Apprenticeship applications (Skills Funding Agency)	Systems and processes will be reconfigured to allow customers to find information tailored to their needs, and search, view and apply for opportunities online in an engaging and inspiring way. Employers, on a self-service basis, will be able to quickly engage with Apprenticeships and advertise vacancies and identify suitable candidates.

1.36 Planned Impacts. The Department's Digital Strategy's goals are to:

- more effectively meet customers' needs;
- support delivery of policy objectives; and
- deliver quality services at a lower cost.

The *Digital Efficiency Report* published by the Cabinet Office estimates that moving services online could save the Department and its customers £230 million to £350 million.¹²

Other assessments of the Department's performance

1.37 In Part Two of this report, we look at the National Audit Office's (NAO) assessment of the Department's performance in 2012-13. Alongside our work and that of the Business, Innovation & Skills Select Committee a number of other bodies regularly produce analyses of how the Department is doing and the challenges it faces. In this section, we look at some of the most notable third-party reports published in the last year.

1.38 The *Communication Capability Review: Department for Business, Innovation & Skills* undertaken by the Government Communications Network as part of a capability assessment of each Whitehall department's communication function, took place in late 2012.¹³ The report found that the Department's Communications Directorate is operationally sound and well organised. It recognised that opportunities exist for the Department to raise performance in strategy and leadership.

1.39 The review team found communication is used effectively in setting out departmental plans and reforms, connecting policy to delivery and enabling the delivery of services.

1.40 The review made five principal recommendations, including:

- more focused narrative around priority policy strands, in particular the Industrial Strategy and growth communications;
- a more visible and influential Communications Directorate that delivers clearer messages on growth; and
- an increase in the importance of conversations and decisions about growth communication, to prevent communications output being detached from the senior leadership of the Department.

¹² Cabinet Office, *Digital Efficiency Report*, November 2012.

¹³ Government Communication Network, *Communication Capability Review: Department for Business, Innovation & Skills*, 2012-13.

1.41 *A Smarter BIS* by Lord Adonis, an interim report for the Labour Party, was published in July 2013. The report commented on several perceived weaknesses of the Department, including a high staff turnover rate, insufficient focus on small businesses and insufficient external scrutiny.

1.42 The review team reported that the core Department and its nine executive agencies had a staff turnover rate of 21.4 per cent in 2011-12 compared with 12.7 per cent across public, private and voluntary organisations in the UK.

1.43 The report commented on the potential instability in the Department's leadership, finding that 13 out of 22 directors in the Department have been in their current role for fewer than three years, and five of the seven directors-general have been in post for fewer than three years.

1.44 The *Government Lead Non-Executive Annual Report 2012-13* commented on the capability of boards, noting that the Department has improved the clarity of its remit and purpose over the past year. The report cited the Board's work on the Industrial Strategy as an example of improved quality of Board discussions.

Staff attitudes

1.45 The government has conducted its Civil Service People Survey annually for the past five years. The most recent survey was carried out in October 2013; detailed results will be available in the first quarter of 2014. We have looked at the results from the October 2012 survey for comment in this report.

1.46 We have summarised the views of the Department's staff on a number of key issues, and compared them to benchmarks for the civil service as a whole and to the Department's results from the 2011 survey. The Department's scores for 49 of the 57 main questions asked were the same as, or better than, those in 2011. Detailed results for all departments are reproduced at Appendix Two.

1.47 **Figure 5** overleaf presents the results from the Civil Service People Survey covering the themes of leadership and managing change, and understanding of organisational objectives and purpose. The Department's scores for these themes are lower than the civil service average for 10 out of 13 questions (2011: 11 out of 13 questions). However, the Department's year-on-year score has increased for 11 of the 13 questions, with one staying the same and one decreasing.

1.48 As part of the annual survey, each department receives an engagement index, for the level of staff engagement. This is determined by the extent to which staff speak positively of the organisation, are emotionally attached and committed to it and are motivated to do their best for the organisation.

Figure 5

2012 Civil Service People Survey: Department for Business, Innovation & Skills

Theme	Department score (% positive) ¹	Difference from 2011 survey	Difference from civil service average 2012 ²
Leadership and managing change			
I feel that the Department as a whole is managed well	39	+8	-4
Senior civil servants in the Department are sufficiently visible	51	+5	+3
I believe the actions of senior civil servants are consistent with the Department's values	40	+6	-2
I believe that the Departmental Board has a clear vision for the future of the Department	41	+12	+1
Overall, I have confidence in the decisions made by the Department's senior civil servants	37	+9	-2
I feel that change is managed well in the Department	26	+2	-3
When changes are made in the Department they are usually for the better	19	+2	-6
The Department keeps me informed about matters that affect me	59	0	+3
I have the opportunity to contribute my views before decisions are made that affect me	31	-1	-5
I think it is safe to challenge the way things are done in the Department	37	+4	-3
Organisational objectives and purpose			
I have a clear understanding of the Department's purpose	81	+4	-3
I have a clear understanding of the Department's objectives	74	+4	-5
I understand how my work contributes to the Department's objectives	79	+4	-3

Notes

- 1 Percentage positive measures the proportion of respondents who selected either 'agree' or 'strongly agree' for a question. Other options were 'neither', 'disagree', or 'strongly disagree'.
- 2 The 2012 benchmark is the median per cent positive across all organisations that participated in the 2012 Civil Service People Survey.
- 3 The survey had a 62 per cent response rate across all participating organisations.

Source: Department for Business, Innovation & Skills, staff survey results 2012, 2011

1.49 In 2012, the Department achieved an engagement index of 52 per cent, six percentage points lower than the 2012 civil service average but three percentage points higher than its 2011 score (in 2011, the Department's engagement index was seven points lower than the civil service average). In December 2013, via its mid-year report, the department announced a two percentage point increase in its overall engagement score for the 2013 Civil Service People Survey.

Major developments for the year ahead

1.50 The Department will progress its **Public Body Reforms** by simplifying both the competition and consumer landscapes. Reforms include the creation of a new Competition and Markets Authority to succeed the Competition Commission and Office of Fair Trading, which will be effective from April 2014, and transferral of the functions of Consumer Futures to the Citizens Advice Bureau.

1.51 Further Education Reforms – Apprenticeships. The Department had a public consultation following publication of the government's response to the Richard Review of Apprenticeships. It considered contributions over the summer with a view to using these to inform further planning and policy development. An implementation plan with the goal of adding rigour and responsiveness to apprenticeships was published in October 2013.¹⁴ The Department will move towards full implementation of the reforms during 2015-16 and 2016-17.

1.52 Of the 89 recommendations in the **Heseltine Review**, 81 have been accepted in full or part by the government. The Department is involved in a decentralisation initiative, which includes creating a Single Local Growth Fund and empowering Local Enterprise Partnerships. The Department has also accepted recommendations on strengthening businesses' links to government and education, fostering private sector growth and ensuring that Whitehall supports growth.

1.53 Monetisation of Assets The Department has announced that work is in progress on the potential sale of the government's holdings in Urenco and the Student Loans portfolio to generate funds for investment.¹⁵ These sales are in addition to the floatation of Royal Mail, which occurred in October 2013.

1.54 The UK is being advised by Morgan Stanley on the sale process of **Urenco** and will also be coordinating all activity with the Dutch and German shareholders, whose support is needed on a final decision to sell. The form, scale and timing of any proposed sale has not yet been determined. Reports in the media have suggested that the sale process has slowed due to Dutch government concerns of protecting its national interests in any sale of its share.

¹⁴ Full detail of the outcome is available at: www.gov.uk/government/consultations/future-of-apprenticeships-in-england-richard-review-next-steps

¹⁵ The Urenco Group is a nuclear fuel company operating uranium enrichment plants in the United Kingdom, Germany, the Netherlands and the United States. The Department holds a one-third stake in Urenco.

Part Two

Recent NAO work on the Department

Our audit of the Department's accounts

2.1 The National Audit Office's (NAO) 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 for Business, Innovation & Skills (the Department) and its partner organisations (POs).

2.2 A key reporting target for central government bodies is to ensure that their statutory accounts are certified by the NAO and laid in Parliament before the Parliamentary summer recess. A significant challenge for the Department is the consolidation of its 40 POs.¹⁶

2.3 During the 2012-13 audit cycle, 39 of the 40 PO's accounts were laid before the Parliamentary summer recess (43 of 43 in the 2011-12 audit cycle).¹⁷ There were no qualifications for 2012-13, compared with five in 2011-12, representing an improved performance. Appendix One contains a list of the Department's partner organisations.

2.4 The Department's 2012-13 consolidated accounts were laid pre-recess despite the complexities in doing so; two months earlier than the 2011-12 accounts process, when the accounts were laid in early September.

2.5 The Department's 2012-13 annual report and accounts were certified by the C&AG with an unqualified opinion. In his audit certificate the C&AG drew attention, via an 'emphasis of matter' paragraph, to the potential for significant changes to occur in the valuation of student loans.¹⁸ The valuation contains uncertainty due to the long-term nature of the loan recoveries and the number and volatility of assumptions which drive the valuation process.

¹⁶ This includes only partner organisations whose accounts are consolidated into the departmental accounts and excludes subsidiaries of partner organisations.

¹⁷ The accounts of UK Shared Business Services (UK SBS) were not laid pre-recess. This did not impact the Department's consolidation process. UK SBS is considered a minor body in terms of the Department, its delay causing no risk of material misstatement to the consolidated accounts.

¹⁸ The emphasis of matter paragraph can be found in the Department for Business, Innovation & Skills, *Annual Report and Accounts 2012-13*, The Certificate and Report of The Comptroller and Auditor General to The House of Commons.

Governance statement headlines

2.6 Governance statements outline how the Accounting Officer of an organisation has discharged his or her responsibility to manage and control the organisation's resources during the course of the year. Governance statements provide a sense of the organisation's performance, and of how successfully the organisation has coped with the challenges it faces. The Department's *2012-13 Governance Statement* highlighted several significant strategic risks faced by the Department in year, including:

- delivery of a challenging portfolio of major projects at a time of significant change in terms of resources and organisational capacity;
- the unpredictable nature of demand in higher education budgets, and the associated risk of under or overspending;
- modernising Royal Mail and the Post Office Limited while maintaining a high-quality service and ensuring their sustainable profitability; and
- ensuring that the Green Investment Bank has the appropriate incentives for long-term financial success, while protecting public funds.

2.7 Moving to shared corporate services. The core Department and several POs moved their financial processing and pay services to UK Shared Business Services (UK SBS) in November 2012. Work is continuing to provide a smooth transition into a more streamlined and effective system during 2013-14.

2.8 Tax policy for off-payroll employees. The Department has introduced a group-wide tax policy. All senior appointments have been moved to payroll, with new and renewed contracts amended with a clause to ensure that individuals are paying the correct amount of tax.

Our audits of the Department's effectiveness and value for money

2.9 The NAO's work to test the effectiveness and value for money of government spending since September 2012 included six reports which focused on the Department or its POs. The principal findings of these reports are summarised below.

2.10 Our report on *Student Loan repayments* examined the arrangements overseen by the Department and operated by its collection partners, the Student Loans Company and HMRC.¹⁹ It considered the Department's strategy and success to date in collecting repayments due on student loans made since 1990-91.

2.11 We found that the Department and its collection partners work together in a joined-up way, and in 2012-13 collected £1.4 billion of student loan repayments at a cost of £27 million. However, we concluded that the Department needed to make better use of data to support its collection strategy to maximise returns from the loan book.

¹⁹ Comptroller and Auditor General, *Student loan repayments*, Session 2013-14, HC 818, National Audit Office, November 2013.

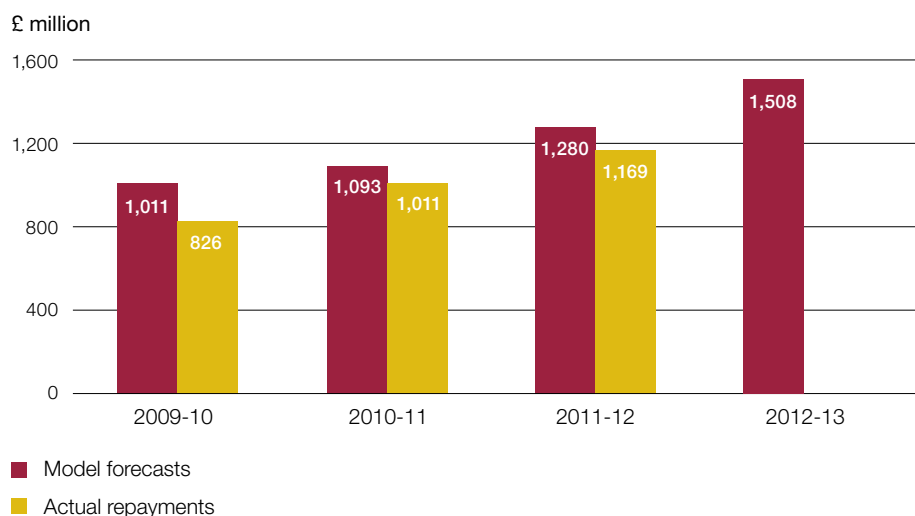
2.12 The Department has difficulty accurately forecasting how much it expects to be repaid each year and why their forecasts have been consistently higher than actual repayments (see **Figure 6**). In addition, the report recommends that the Department does more to establish whether borrowers with no current UK employment record are working overseas. Improving information on borrowers should also help the Department decide where to invest to maximise loan repayments.

2.13 Our *access to finance* report, covering the Department and HM Treasury, looked at the enduring financing problem faced by many small and medium-sized enterprises (SMEs).²⁰ The Department runs six main schemes that address areas of the finance market where there are problems. Schemes include finance guarantees, loans and equity support. Together, these constitute financial support of up to £2.85 billion. The report examined whether the Department and HM Treasury are delivering individual schemes effectively and whether, more generally, they are addressing SMEs' financing problems in a coherent way.

Figure 6

Comparison of model forecasts to actual repayments

Forecast repayments remain higher than those collected



Notes

- 1 Data excludes voluntary early repayments, which are more volatile and difficult to forecast, and only includes repayments based on earnings.
- 2 Actual repayments are taken from published Student Loans Company data from 2012 and 2013. Actual data for 2012-13 is not yet available as HMRC confirmation takes place later due to processes in the tax systems.
- 3 Forecasts were made by the Department using the HERO model developed by Deloitte in 2011, excluding 2009-10, which was produced using the Student Loan Repayment Model.

Source: National Audit Office analysis of Department for Business, Innovation & Skills and Student Loans Company data

²⁰ Comptroller and Auditor General, *Improving access to finance for small and medium-sized enterprises*, Session 2013-14, HC 734, National Audit Office, November 2013.

2.14 We found that a strong body of data is now available on SMEs seeking finance, and that there has been a renewed focus on research into SME financing. In addition, many of the individual schemes have been delivering against their respective targets. The schemes helped around 5,900 SMEs during 2012-13.

2.15 However, the Department and HM Treasury have not managed the range of initiatives sufficiently as a unified programme, and have not clearly articulated what the schemes are intended to achieve as a whole. While the Department has taken steps to better explain the options open to SMEs in financing their businesses, 'branding' the help available to SMEs will be a key challenge for the Business Bank.

2.16 Our report *Funding and structures for local economic growth* examines whether departments are implementing new local growth programmes in a way that is likely to achieve the government's objectives and provide value for money.²¹ The report focuses on Local Enterprise Partnerships, Enterprise Zones, the Growing Place Fund, Regional Growth Fund and City Deals with responsibility shared largely between the Department for Communities and Local Government and the Department for Business, Innovation & Skills.

2.17 Three years on from the 2010 white paper, the new local growth landscape is taking shape and outputs are beginning to be delivered. The government closed the Regional Development Agencies and transferred certain functions upwards to central departments effectively, but introduced the new local programmes covered in the report gradually and over a different time frame. This is reflected in a significant dip in funding and outputs over this period (see **Figure 7** overleaf). Furthermore, progress by Local Enterprise Partnerships has been mixed and job creation in Enterprise Zones and through the Growing Places Fund and Regional Growth Fund has been slow.

2.18 Departments need to manage the range of local growth initiatives as a programme and address how they intend to evaluate performance and monitor outcomes across the programme as a whole. Otherwise departments have no basis for matching resources against priorities across the portfolio of initiatives to achieve best overall value for money.

2.19 Our *Departmental Sustainability Overview: Business, Innovation & Skills*²² report assesses the Department's progress in successfully embedding sustainable development within its governance structures, policymaking, operations and procurement functions.

2.20 We found that the Department had complied with central guidance for monitoring and reporting on sustainable development, with notable detailed reporting against commitments for what is known as greener government.

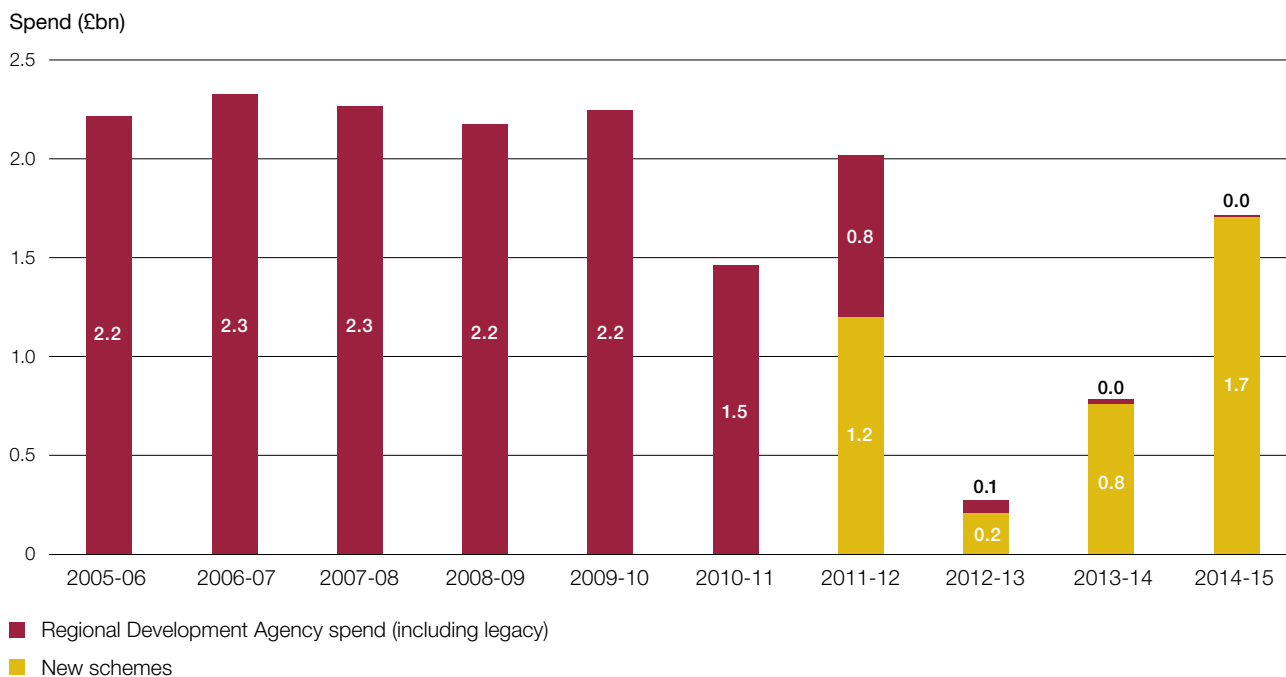
21 Comptroller and Auditor General, *Funding and structures for local economic growth*, Session 2013-14, HC 542, National Audit Office, December 2013.

22 National Audit Office, *Departmental Sustainability Overview: Business, Innovation & Skills*, July 2013.

Figure 7

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

There has been a marked dip in government funding

**Notes**

- 1 Spending by Regional Development Agencies is from their annual reports and accounts and excludes closure costs.
- 2 Data for 2013-14 onwards is budget data. Earlier data is outturn.
- 3 Figures have been rounded.

Source: National Audit Office analysis of departmental data

2.21 The Department was also proactive, we found, in identifying and evaluating the economic and social impacts of projects, recognising the possibility for wider benefits such as economic growth and improved social cohesion, albeit with limited ability to quantify these in monetary terms. We noted that limited consideration was given to potential long-term indirect costs, such as the impacts to the environment of economic growth.

2.22 Opportunities existed for the Department to influence sustainability more within universities and other educational institutions, through the funding for higher and further education provided via its partner organisations Higher Education Funding Council for England and Skills Funding Agency.

2.23 The NAO's *Data Assurance Summary Report* is our second review of the Department's data systems supporting input and impact indicators, and back-office and operational information.²³

2.24 Our review examines 11 data systems which support business plan indicators covering skills, knowledge and innovation, and enterprise. We examined findings under three headings: completeness of information; information strategy; and assessment of data systems. Our report does not provide a conclusion on the accuracy of the figures included in the Department's performance statements.

2.25 We found that four indicators would benefit from some minor improvements and two indicators have significant weaknesses. Otherwise, the business plan indicators covered by the report were based on robust data that is subject to an appropriate level of quality assurance. The two areas of weakness were because of a lack of timeliness of data, as opposed to concerns over the accuracy of the data or reported figures.

2.26 Our report on *Supporting UK exporters overseas*²⁴ looks at the Foreign & Commonwealth Office and UK Trade and Investment. The report focuses on how these bodies help British businesses to increase their exports and whether they are providing sufficient support to business to fulfil the government's aim of doubling exports to £1 trillion by 2020.

2.27 We found that the initial responses of both bodies to the target of doubling exports were not aligned and that there are instances of unclear roles and responsibilities between the bodies when working together overseas. In order to deliver value for money the measures taken by each body to support exports need to be better coordinated, and supported by enforced, measurable milestones.

2.28 Our recommendations focus on the harmonisation of working between the two bodies. Recommendations included jointly accountable planning and performance monitoring; better communication of best practice and expectations in joint working; and the development of a sustainable method of joint planning that recognises that the bodies have different departmental objectives and targets.

The Department in a cross-government context

2.29 In addition to our work on individual departments, the NAO increasingly looks at performance across government, in order to understand how different departments compare on important issues. In the cross-government reports we have published in the last year, three references have been made to the Department or its POs.

2.30 *Building capability in the Senior Civil Service to meet today's challenges*. One element of our report mentioned the Committee of Public Accounts' concerns about the impact of changes in project leadership, as a result of high staff turnover in the Senior Civil Service (SCS).²⁵ The report looked at trends across departments during 2011-12. During 2011-12, the Department had a relatively high degree of staff movement at SCS level, ranking eighth out of 17 bodies, with 23 per cent of staff leaving the SCS or moving departments.

²⁴ Comptroller and Auditor General, *Supporting UK exporters overseas*, Session 2013-14, HC 732, National Audit Office, October 2013.

²⁵ Comptroller and Auditor General, *Building capability in the Senior Civil Service to meet today's challenges*, Session 2013-14, HC 129, National Audit Office, June 2013.

2.31 *Charges for customer telephone lines.* Our report found that, despite government-wide efforts to reduce their use, central government departments still used higher rate numbers, such as 0845, for 33 per cent of telephone lines.²⁶ In 2012-13, the Department was the joint third highest user of higher rate numbers and the third highest recipient of calls across government to its higher rate numbers. The call volume and use of higher rate numbers across government is illustrated in **Figure 8**.

2.32 *Evaluation in government* looked at ex-post evaluation, which is defined as “the activity of examining the implementation and impacts of policy interventions, to identify and assess their intended and unintended effects and costs”.²⁷ The report noted that published evaluation plans are not always implemented. The Department is mentioned as having published only three of the five evaluations that it committed to in its 2010 strategy.

NAO work in progress

2.33 The NAO is currently undertaking a value-for-money examination of the **Privatisation of Royal Mail Plc**, given the scale and significance of what has been the first public offering for many years of shares in a publicly owned company, the examination will cover the issues of how the price range for the Initial Public Offering was set and the discussion of possible revisions to the range. We expect to publish a report in spring 2014.

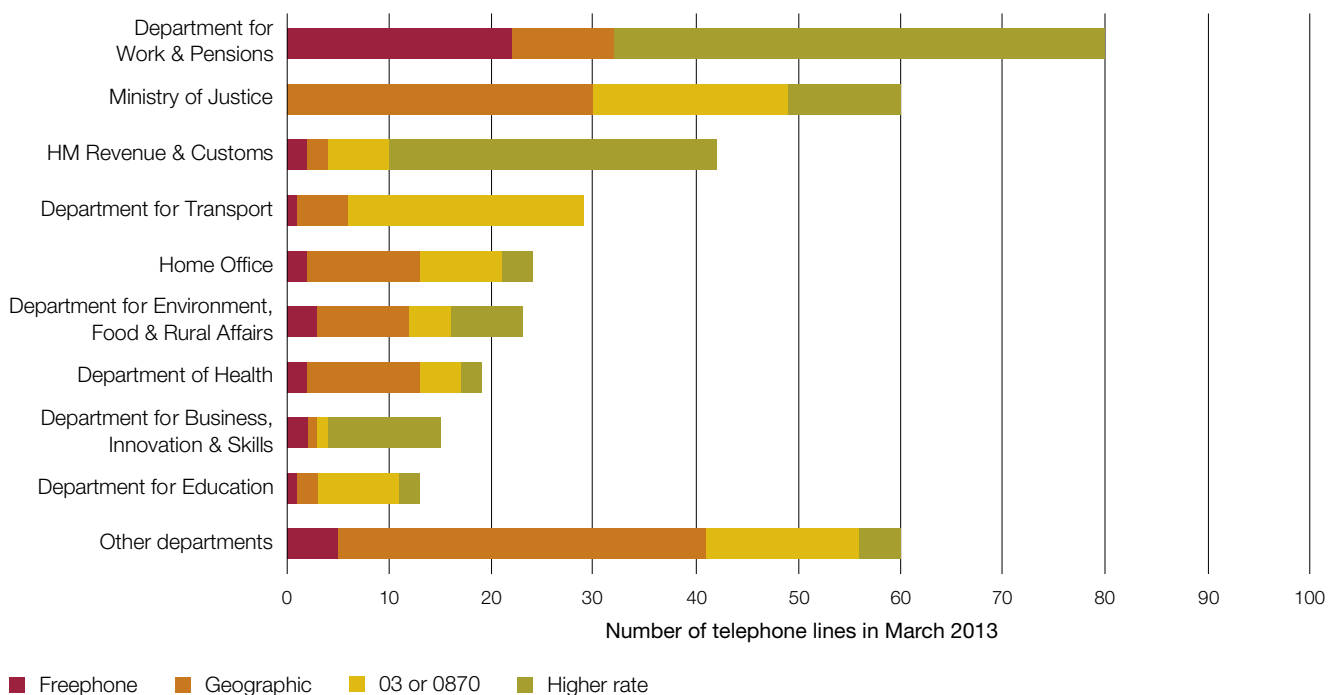
26 Comptroller and Auditor General, *Charges for customer telephone lines*, Session 2013-14, HC 541, National Audit Office, July 2013.

27 National Audit Office, *Evaluation in government*, December 2013.

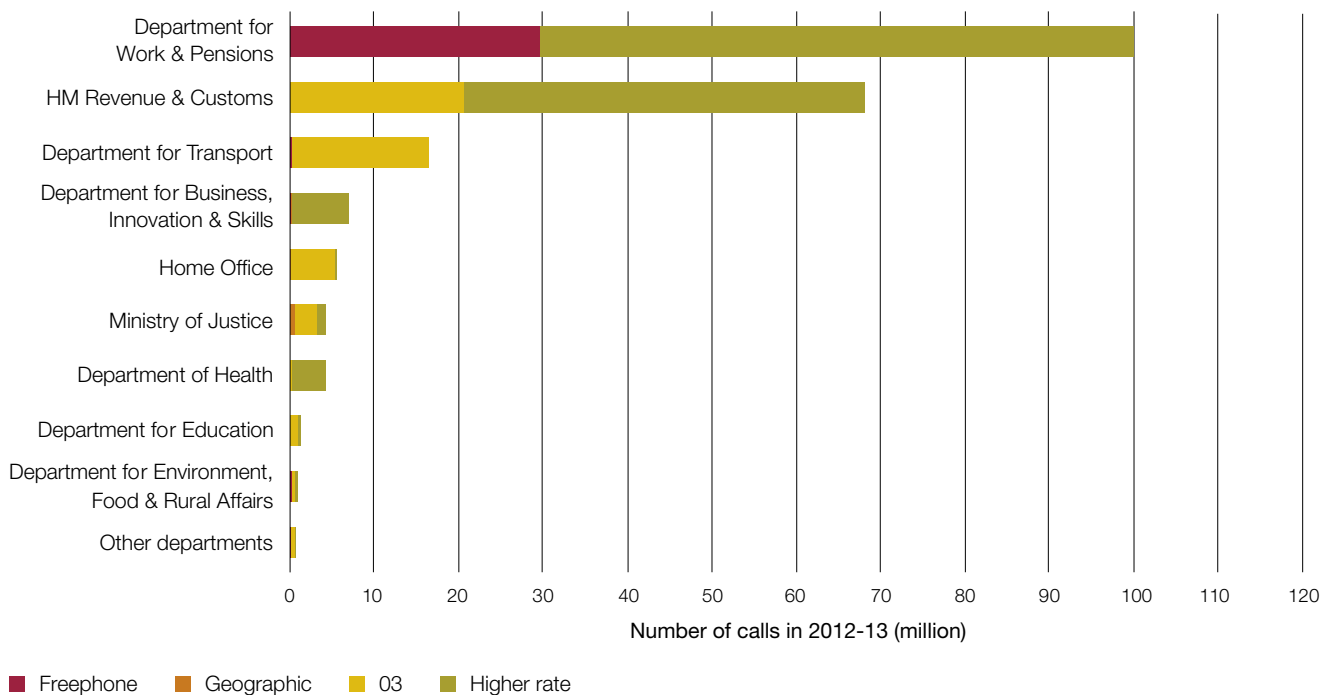
Figure 8

Use of higher rate telephone lines in use across departments in March 2013

The Department is the joint third highest user of higher rate numbers



The Department has the third highest call volume of higher rate numbers



Source: Comptroller and Auditor General, *Charges for customer telephone lines*, Session 2013-14, HC 541, National Audit Office, July 2013

Appendix One

The Department's sponsored bodies at 1 April 2013

Bodies consolidated in departmental group accounts for 2012-13

Executive Agencies

Insolvency Service	Executive agency
National Measurement Office	Executive agency
UK Space Agency	Executive agency

Crown Executive non-departmental public bodies (NDPBs)

Advisory Conciliation and Arbitration Service (ACAS)	Crown executive NDPB
Skills Funding Agency	Crown executive NDPB

NDPBs and other designated bodies

Advantage West Midlands	Executive NDPB
Arts and Humanities Research Council	Executive NDPB
Biotechnology and Biological Sciences Research Council	Executive NDPB
BIS (Postal Services Act 2011) Company Limited	Limited company
Capital for Enterprise Limited (CfEL)	Executive NDPB and limited company
Competition Appeal Tribunal	Tribunal NDPB
Competition Commission	Executive NDPB
Competition Service	Executive NDPB
Construction Industry Training Board (CITB)	Executive NDPB and charity
Consumer Focus (operating name of the National Consumer Council)	Executive NDPB
Diamond Light Source Limited	Limited company
East Midlands Development Agency	Executive NDPB
East of England Development Agency	Executive NDPB
Economic and Social Research Council	Executive NDPB
Engineering and Physical Sciences Research Council	Executive NDPB
Engineering Construction Industry Training Board	Executive NDPB and charity
Financial Reporting Council Limited	Limited company
Higher Education Funding Council for England (HEFCE)	Executive NDPB
Learning and Skills Improvement Service	Charitable company
Medical Research Council	Executive NDPB

NDPBs and other designated bodies *continued*

The NESTA Trust	Charitable trust
Natural Environment Research Council	Executive NDPB
North West Development Agency (NWDA)	Executive NDPB
ONE North East	Executive NDPB
The Pirbright Institute (formerly known as the Institute for Animal Health)	Company limited by guarantee
Science and Technology Facilities Council (STFC)	Executive NDPB
South East England Development Agency (SEEDA)	Executive NDPB
South West of England Regional Development Agency	Executive NDPB
Student Loans Company Limited	Executive NDPB and limited company
Technology Strategy Board	Executive NDPB
UK Green Investment Bank plc	Public limited company owned by BIS
UK Shared Business Services Limited (formerly RCUK Shared Service Centre Limited)	Limited company
United Kingdom Atomic Energy Authority	Executive NDPB
United Kingdom Commission for Employment and Skills	Executive NDPB
Yorkshire Forward (operating name of Yorkshire and the Humber Regional Development Agency)	Executive NDPB

Bodies not consolidated in departmental group accounts for 2012-13

This list comprises bodies that are within the group boundary but were not consolidated as their net assets were not considered material to the departmental group

British Hallmarking Council	Executive NDPB
British Shipbuilders	Public corporation
Copyright Tribunal	Tribunal NDPB
Council for Science and Technology	Advisory NDPB
Directions Finningley	Community interest company
Film Industry Training Board for England and Wales	Executive NDPB and charity
Industrial Development Advisory Board	Advisory NDPB
Insolvency Practitioners Tribunal	Tribunal NDPB
Low Pay Commission	Advisory NDPB
NW VCLF HF LLP	Limited liability partnership
Office for Fair Access (operating name of Director of Fair Access to Higher Education)	Executive NDPB
Office of Manpower Economics	Advisory NDPB
Wave Hub Limited	Limited company

Notes

- 1 The Regional Development Agencies ceased operations on 31 March 2012, and were formally wound up on 1 July 2012.
- 2 The Learning and Skills Improvement Service ceased to exist on 31 July 2013.
- 3 The Department resigned its interest in Directions Finningley in March 2013.

Source: The Department for Business, Innovation & Skills, *Annual Report and Accounts 2012-13*

Appendix Two

Results of the Civil Service People Survey 2012

Question scores (% strongly agree or agree)	Civil service overall	Department for Business, Innovation & Skills (excluding agencies)
Leadership and managing change		
I feel that the Department as a whole is managed well	43	39
Senior civil servants in the Department are sufficiently visible	48	51
I believe the actions of senior civil servants are consistent with the Department's values	42	40
I believe that the departmental board has a clear vision for the future of the Department	40	41
Overall, I have confidence in the decisions made by the Department's senior civil servants	39	37
I feel that change is managed well in the Department	29	26
When changes are made in the Department they are usually for the better	25	19
The Department keeps me informed about matters that affect me	56	59
I have the opportunity to contribute my views before decisions are made that affect me	36	31
I think it is safe to challenge the way things are done in the Department	40	37
Organisational objectives and purpose		
I have a clear understanding of the Department's purpose	84	81
I have a clear understanding of the Department's objectives	79	74
I understand how my work contributes to the Department's objectives	82	79

Note

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

Cabinet Office (excluding agencies)	Department for Communities and Local Government (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 (excluding agencies)	HM Treasury	Home Office (excluding agencies)	Department for International Development	Ministry of Justice (excluding agencies)	Department for Transport (excluding agencies)	Department for Work & Pensions (excluding agencies)
38	31	23	19	39	39	29	56	31	21	62	39	63	48	43	29
47	45	37	26	46	64	42	59	47	33	71	48	71	56	59	30
40	33	23	24	39	47	34	55	39	27	59	40	62	47	47	29
29	31	29	22	31	27	22	54	24	24	47	28	64	37	35	30
40	30	18	16	35	42	29	50	33	19	57	35	58	43	39	23
28	22	19	11	27	27	19	42	18	17	49	23	44	34	27	24
22	14	12	9	17	25	14	36	14	14	35	18	32	29	19	20
57	54	56	41	55	67	56	62	49	40	72	60	69	61	63	46
34	32	32	20	37	39	31	42	30	20	48	33	50	37	35	23
41	29	32	30	36	43	37	45	31	29	54	38	44	41	43	33
73	67	64	80	83	87	74	83	68	75	86	84	94	79	80	79
63	63	62	72	77	84	70	80	62	72	80	80	92	73	74	77
73	72	70	76	80	86	75	84	69	75	82	81	91	77	79	78

Appendix Three

Publications by the NAO on the Department since April 2012

Publication date	Report title	HC number	Parliamentary session
6 December 2013	Funding and structures for local economic growth	HC 542	2013-14
28 November 2013	Student loan repayments	HC 818	2013-14
1 November 2013	Improving access to finance for small and medium-sized enterprises	HC 734	2013-14
16 October 2013	Supporting UK exporters overseas	HC 732	2013-14
9 August 2013	Review of the data systems for the Department for Business, Innovation & Skills	www.nao.org.uk/report/2012-13-review-of-the-data-systems-for-the-department-for-business-innovation-and-skills/	
10 July 2013	NAO memorandum: Research and Development funding for science and technology	www.nao.org.uk/report/nao-memorandum-research-and-development-in-the/	
19 October 2012	Departmental Overview: A summary of the NAO's work on the Department for Business, Innovation & Skills 2011-12	www.nao.org.uk/report/departmental-overview-a-summary-of-the-naos-work-on-the-department-for-business-innovation-and-skills-2011-12/	
26 July 2012	Review of the data systems for the Department for Business, Innovation & Skills	www.nao.org.uk/report/review-of-the-data-systems-for-the-department-for-business-innovation-and-skills/	
12 July 2012	Department for Business, Innovation & Skills: Financial management report	HC 507	2012-13
3 July 2012	The East of England Development Agency financial statements 2011-12	www.nao.org.uk/report/the-east-of-england-development-agency-financial-statements-2011-12/	
29 June 2012	Business Perceptions Survey 2012	www.nao.org.uk/report/business-perceptions-survey-2012-3/	
26 June 2012	Skills Funding Agency Accounts 2011-12	www.nao.org.uk/report/skills-funding-agency-accounts-2011-12/	
11 May 2012	The Regional Growth Fund	HC 17	2012-13

Appendix Four

Cross-government reports of relevance to the Department

Publication date	Report title	HC number	Parliamentary session
December 2013	Evaluation in government	www.nao.org.uk/report/evaluation-government/	
18 July 2013	Charges for customer telephone lines	HC 541	2013-14
19 June 2013	Building capability in the Senior Civil Service to meet today's challenges	HC 129	2013-14
13 June 2013	Financial management in government	HC 131	2013-14
13 March 2013	Cabinet Office and HM Treasury – Integration across government	HC 1041	2012-13
27 February 2013	Improving government procurement	HC 996	2012-13
21 February 2013	NAO briefing: Sustainability reporting in government	www.nao.org.uk/report/nao-briefing-sustainability-reporting-in-government/	
25 September 2012	A snapshot of the use of Agile delivery in central government	www.nao.org.uk/report/a-snapshot-of-the-use-of-agile-delivery-in-central-government-4/	
3 Aug 2012	NAO briefing: Appraisal and sustainable development	www.nao.org.uk/report/nao-briefing-appraisal-and-sustainable-development/	
26 June 2012	Delivering public services through markets: principles for achieving value for money	www.nao.org.uk/publications/1213/delivering_public_services.aspx	
20 June 2012	The effectiveness of internal audit in central government	HC 23	2012-13
18 April 2012	Implementing Transparency	HC 1833	2010–2012

Where to find out more

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

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Design and Production by
NAO Communications
DP Ref: 10350-001
Printed by SLS Print
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