



National Audit Office

DEPARTMENTAL OVERVIEW

A summary of the NAO's work on the Department for Business, Innovation and Skills 2011-12

OCTOBER 2012

Our vision is to help the nation spend wisely.

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

The National Audit Office scrutinises public spending 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 more than £1 billion in 2011.



National Audit Office

Contents

Introduction 4

Part One

About the Department **5**

Part Two

Financial management **12**

Part Three

Reported performance **15**

Appendix One

Department's sponsored bodies at
1 April 2012 **20**

Appendix Two

Results of the Civil Service People
Survey 2011 **22**

Appendix Three

Account qualifications 2011-12 **24**

Appendix Four

Publications by the NAO on the
Department since 2009-10 **25**

Appendix Five

Recent cross-government NAO reports
of relevance to the Department **27**

Introduction

Aim and scope of this briefing

The primary purpose of this report is to provide the Business, Innovation and Skills Select Committee with a summary of the recent performance of the Department for Business, Innovation and Skills, based primarily on the Department's Accounts and National Audit Office work. 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 The Department for Business, Innovation and Skills (the Department) is focused on delivering the government's goal of sustained and balanced economic growth. It is responsible for government policy on: science and research; innovation; enterprise and business; fair markets; better regulation; universities and skills; regional economic development and government's performance as a shareholder. The Department also, in conjunction with the Foreign and Commonwealth Office, sponsors UK Trade and Investment, a non-ministerial department focused on supporting UK business overseas and attracting foreign investment into the UK.

How the Department is organised

2 The departmental board (comprising Ministers, Executive Directors General and Non-Executive members) provides strategic and operational leadership of the Department with responsibility for performance, strategy and learning, resources, change, capability and risk.

3 Day-to-day management of the Department is provided by the Executive Board. This is led by the Permanent Secretary, who is supported by a management team of eight Directors General, who each lead a management group: Strategy, Analysis and Better Regulation; Markets and Local Growth; Finance and Commercial; Legal, People and Communications; UK Trade and Investment; Business and Skills; Knowledge and Innovation; and the Shareholder Executive.

4 The Department's boards, their responsibilities, memberships and the relationships between them are illustrated in **Figure 1** overleaf. This structure was put in place by a recent (April 2012) reorganisation, which sought to free up the Executive Board's time to focus on strategic issues.

5 The Department devolves most of its delivery to a diverse array of partner organisations, which are listed in Appendix One. The largest spending bodies include the Higher Education Funding Council for England (HEFCE), the Skills Funding Agency (SFA) and the seven Research Councils. The eight Regional Development Agencies were historically responsible for a large amount of BIS expenditure, but have now closed down. A range of smaller bodies, such as the Competition Commission and the Student Loans Company play a key role (despite their size) in delivering departmental objectives.

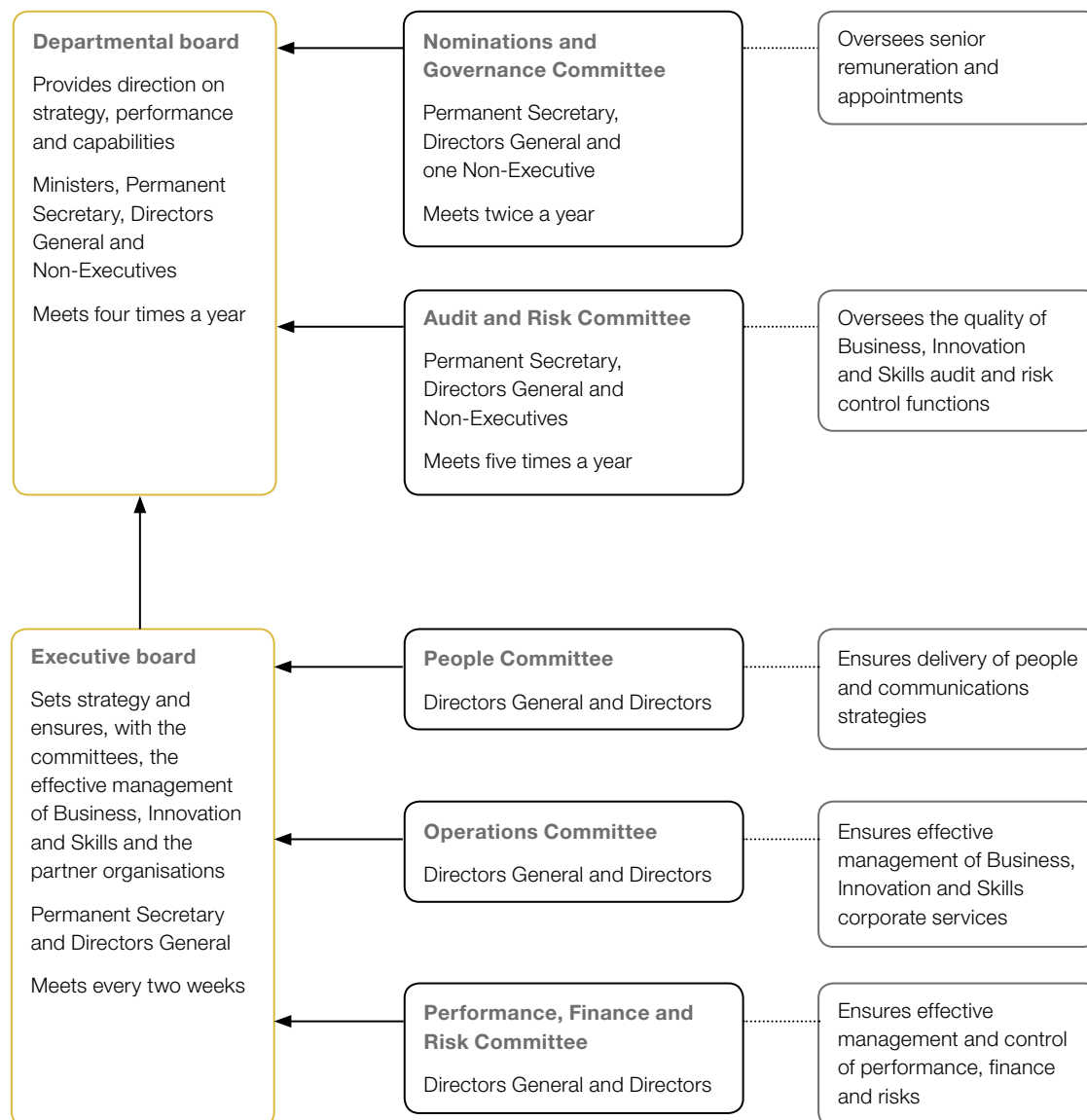
Where the Department spends its money

6 The departmental group spent £24.3 billion in 2011-12.¹ The group employs around 24,500 staff, of which 3,200 are employed by the Core Department. The Department's most significant expenditure for 2011-12 is shown in **Figure 2** on page 7. Significant areas of spend include funding of higher education (through HEFCE), further education (through SFA) and science and innovation (through the Research Councils). High profile projects within the Department include higher education funding reforms, managing the Regional Growth Fund, the introduction of a green investment bank and securing the future of Royal Mail and the Post Office.

7 The Department has a substantial and complex balance sheet. At 31 March 2012 its net assets were £33 billion. The majority of the balance sheet relates to student loan investments which are valued at £28 billion.

¹ Department for Business, Innovation and Skills, Annual Report and Accounts 2011-12 Statement of Comprehensive Net Expenditure.

Figure 1
The Department's organisational structure¹ from April 2012

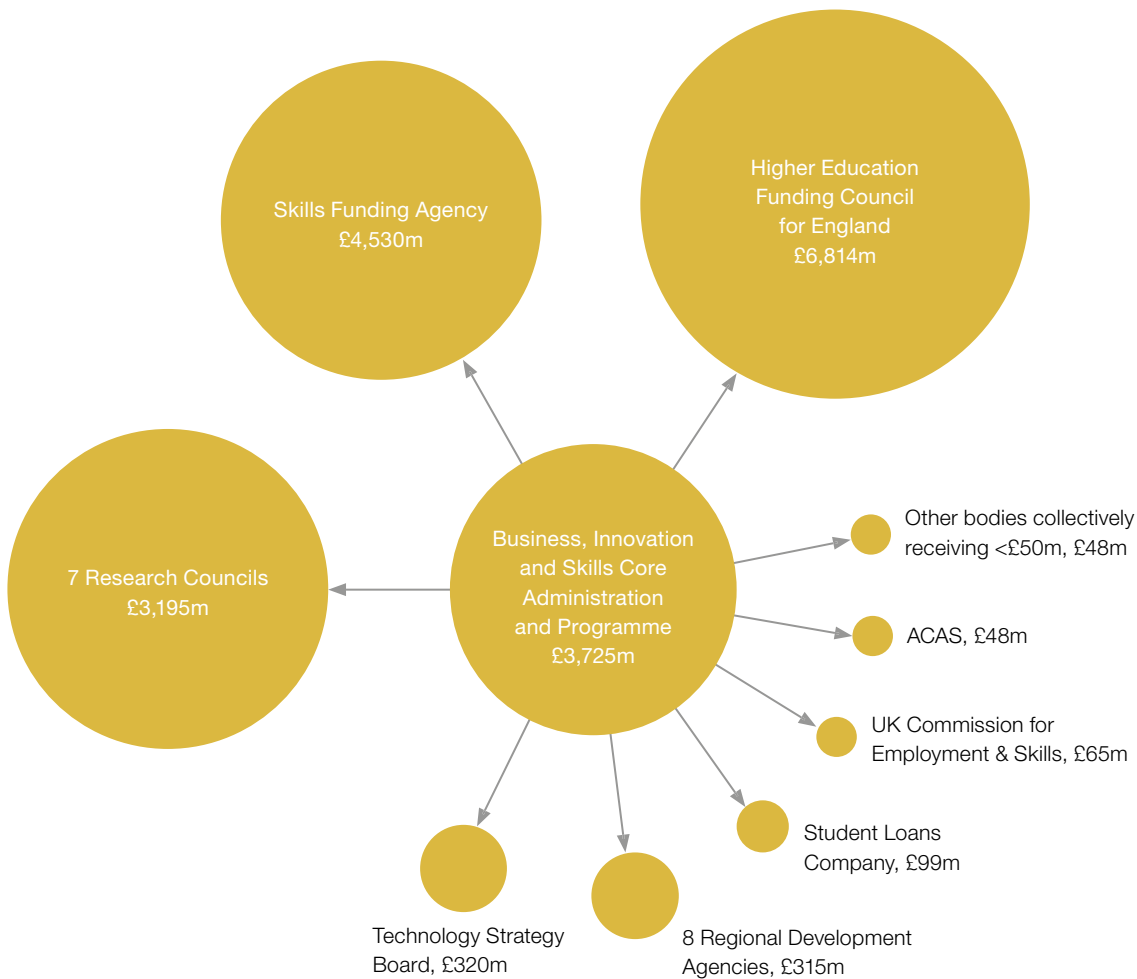


NOTE
1 Arrows show reporting relationships.

Source: Department for Business, Innovation and Skills, Annual Report and Accounts 2011-12, Governance Statement

Figure 2

The most significant spending bodies within the Business, Innovation and Skills group, 2011-12

**NOTES**

- 1 Funds shown for partner bodies are based upon the grant in aid received by partner bodies per their audited 2011-12 Annual Report and Accounts. The Department's core admin and programme expenditure is taken from the Statement of Comprehensive Net Expenditure.
- 2 The figure shown for the Department's core includes expenditure on Executive Agencies. The Department has three Executive Agencies: UK Space Agency (received £259 million funding), National Measurement Office (£61 million) and Insolvency Service (£61 million).
- 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, also meets the administration costs of UK Trade and Investment, with the Department for Business, Innovation and Skills responsible for UK costs and Foreign and Commonwealth Office responsible for overseas costs and costs relating to their employees based in the UK.

Source: Compiled from audited 2011-12 accounts of the Department's partner bodies

Recent developments and current challenges

8 Significant developments within the Department include:

- **Reform of Higher Education** The Higher Education White Paper was published in June 2011. The White Paper was followed by a consultation, the response to which was published in June 2012. Reform of higher education will transfer the burden of funding from the taxpayer to the student. By 2014-15, the Department assesses that it will spend £3.1 billion less on teaching grants than in 2010-11, and estimates that £5.3 billion of additional student loans will be made compared with those issued in 2010-11. The Department anticipates that most of the student loans paid out in this spending review period will be repaid in the future.²
- **Reform of Further Education** In December 2011, the Department published the results of its 'New Challenges, New Chances' consultation, which laid out its strategy for further education reform, including Advanced Learning Loans. These loans will be phased in from the 2013/14 academic year and will eventually (from 2014/15) represent between 10-15 per cent of the total Further Education budget.
- The **Green Investment Bank (GIB)** The investment bank aims to support environmentally beneficial industries, with initial capital of £3 billion. The Department expects to obtain state aid approval from the EU for the GIB in autumn 2012. The Department has established a shadow organisation, known as UK Green Investments (UKGI), to make direct investments on fully commercial terms prior to state aid approval.
- The **Business Bank** The Secretary of State has announced a government-backed business bank to work at arm's-length from government, helping UK companies to invest in capital and drive their expansion.
- The **Discontinuation of the Regional Development Agencies** The regional development agencies achieved operational closure as of 31 March 2012, being formally wound up as of 1 July 2012. The Department has replaced them with local enterprise partnerships.
- The **New Postal Services regulatory framework** In October 2011, the Postal Services Act 2011 came into force. This Act enabled the Department to proceed with its plans to transfer the assets and liabilities of the Royal Mail Pension Plan to a new public sector scheme. In March 2012, the Department obtained EU state aid approval to proceed with this transfer.
- The **Regional Growth Fund** is a £2.4 billion fund operating across England from 2011 to 2015. The fund aims to support projects and programmes with significant potential for creating additional, sustainable private sector employment (see also paragraphs 58-59).
- HM Treasury's **Clear Line of Sight** project required the Department to consolidate an unprecedented number of partner organisations into its 2011-12 accounts. This posed a major challenge for the Department due to its large number of partner organisations, with 33 additional bodies being incorporated into the accounts for the first time. The Department devoted significant management effort to the programme and, as well as meeting the overall aim of aligning estimates, budgets and accounts, is beginning to realise wider benefits such as improved communication between itself and its partners. The Department laid its resource accounts before Parliament in September 2012.

2 Comptroller and Auditor General, Department for Business, Innovation and Skills: *Financial management report*, Session 2012-13, HC 507, National Audit Office, July 2012.

Capability and leadership

9 In 2006, the Cabinet Office launched Capability Reviews to assess departments' leadership, strategy and delivery – to improve departmental readiness for future challenges and to enable departments to act on long-term key development areas. Departments are required to conduct and publish self-assessments and resultant action plans against standard criteria set out in the Cabinet Office model of capability, which was updated in July 2009.³ Departments must rate their capability against ten criteria under three themes:

- **Leadership criteria** – 'set direction'; 'ignite passion, pace and drive'; and 'develop people'.

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

10 The results of the Department's self-assessment, published in March 2012, are summarised in **Figure 3**.⁴

Figure 3

Results of the Department for Business, Innovation and Skills Capability Review self-assessment

Leadership criteria	Rating
Set direction	
Ignite passion, pace and drive	
Develop people	
Strategy criteria	
Set strategy and focus on outcomes	
Base choices on evidence and customer insight	
Collaborate and build common purpose	
Delivery criteria	
Innovate and improve delivery	
Plan, resource and prioritise	
Develop clear roles, responsibilities and delivery models	
Manage performance and value for money	

Source: Department for Business Innovation and Skills Capability Action Plan

³ Available at: www.civilservice.gov.uk/about/improving/capability/model

⁴ Department for Business, Innovation and Skills *Capability Action Plan*

11 The Department's overall self-assessment was Amber-Green. The Permanent Secretary's view is that "Our leaders need to better express the BIS vision, both within and outside the Department; we need to prioritise more systematically; and we need to continue to keep a tight focus on performance management".⁵

12 The review noted that the Department must further develop a culture of prioritisation to ensure that the correct decisions are made when allocating resources at all levels of the department. The Department is building a model for strategic evidence-based prioritisation that will be used by the board for decisions on the allocation of resources to ensure delivery of the Department's vision for growth.

13 The self-assessment also noted that the way the Department works with its partner organisations varies across the Department. Increasing clarity and simplicity around what constitutes a 'good sponsorship' model would enable greater sharing of best practice between the Department and partner organisations and earlier involvement of partner organisations in priority issues.

14 In March 2011, the Department launched a new Learning and Development strategy that includes specific actions to raise the capability of all staff as well as enabling those with the highest potential to progress. The core Department acknowledges gaps in its science and engineering capability and is addressing these by strengthening the Chief Scientific Adviser team and preparing detailed plans to improve integration of science and engineering into strategy and policy.

15 The Civil Service People Survey aims to provide consistent and robust metrics to help government understand the key drivers of engagement, so that it can build upon strengths and tackle weaknesses across the civil service. The survey of civil servants includes a range of questions across nine themes which seek to measure their experiences at work.

Figure 4 presents the results from the third annual people survey for the Department⁶ – undertaken between mid-September 2011 and mid-October 2011 – covering the themes of leadership and managing change, and understanding of organisational objectives and purpose. The results of 17 major departments are in Appendix Two. The Department's scores for the themes summarised in the table are lower than the 2011 civil service average for 11 out of 13 questions (compared to 9 out of 13 in the 2010 survey) and compared with 2010, the Department's score has decreased for six of the 13 questions.

16 As part of the annual survey, each department receives an engagement index, assessing the level of staff engagement determined by: the extent to which staff speak positively of the organisation, are emotionally attached and committed to it, and are motivated to do the best for the organisation. In 2011, the Department achieved an engagement index of 49 per cent, seven percentage points lower than the 2011 civil service average and one percentage point lower than in 2010 (in 2010, the Department's engagement index was also seven points lower than the civil service average).

⁵ Department for Business, Innovation and Skills *Capability Action Plan*.

⁶ The results shown here are the results for the core Department. Some of the Department's partner bodies, such as the Skills Funding Agency and the Insolvency Service, were also included in the survey but their results were reported separately and are not included in the data summarised here.

Figure 4
2011 Civil Service People Survey: Department for Business, Innovation and Skills

Theme	Theme score (% positive) ¹	Difference from 2010 survey	Difference from civil service average 2011 ²
Leadership and managing change			
I feel that the Department as a whole is managed well	31	-7	-10
Senior civil servants in the Department are sufficiently visible	46	-3	+1
I believe the actions of senior civil servants are consistent with the Department's values	34	-6	-5
I believe that the Management board has a clear vision for the future of the Department	29	0	-10
Overall, I have confidence in the decisions made by the Department's senior civil servants	28	-5	-9
I feel that change is managed well in the Department	24	-7	-3
When changes are made in the Department they are usually for the better	17	0	-5
The Department keeps me informed about matters that affect me	59	+1	+4
I have the opportunity to contribute my views before decisions are made that affect me	32	+4	-4
I think it is safe to challenge the way things are done in the Department	33	-2	-6
Organisational objectives and purpose			
I have a clear understanding of the Department's purpose	77	+2	-7
I have a clear understanding of the Department's objectives	70	+2	-9
I understand how my work contributes to the Department's objectives	75	0	-6

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 2011 benchmark is the median per cent positive across all organisations that participated in the 2011 Civil Service People Survey.
- 3 The survey had a 60 per cent response rate across all participating organisations.

Source: Department for Business, Innovation and Skills. Staff Survey Results 2010, 2011

Part Two

Financial management

17 The ability of departments to control costs and drive out waste requires professional financial management and reporting. In particular, departments need to be better at linking costs to services and benchmarking performance to determine whether costs are justified and value for money can be improved. Organisations also need to move their risk management arrangements from a process-led approach to one which supports the efficient and effective delivery of services. Improvements in these areas of management will help public bodies to deliver cost-effective services as they make difficult financial decisions over the coming years.

18 Departments are required to publish Governance Statements with their Annual Report and Accounts which describe their arrangements for corporate governance, risk management, and oversight of locally delivered responsibilities. Governance Statements replace Statements on Internal Control which were published in previous years. They are designed to include additional discussion of how governance in the Department works, in line with the Corporate Governance Code.⁷

Financial out-turn for 2011-12 and comparison with budget

19 The Department reported a variance of £2,400 million against a budget estimate of £27,600 million.⁸ The main reason for the variance was the Department's difficulty in forecasting the value of the student loan book, which is a large and inherently volatile asset. Student loans are repaid at a rate determined by the student's income; the value of the student loan book is therefore dependent upon expectations of students' future earnings. Estimates of the recoverability of loans, and hence the value of the loan book, are therefore highly sensitive to movements in economic forecasts. Any reduction in the value of loans creates an immediate operating cost in the Department's accounts.

20 The Department anticipated that the Office of Budget Responsibility (OBR)'s March 2012 economic forecast would reduce the value of the student loan book, and provided for this with a supplementary estimate (for an additional £2,900 million) in February 2012. When the OBR's economic forecast was issued, the impact on the loan book valuation was less than the Department had expected, resulting in the additional resource provided by the supplementary estimate not being utilised. The Department's reported expenditure was therefore less than the amount estimated.

Progress on cost reduction

21 Departments remain under pressure to reduce costs. The scale of cost reduction required means that departments need to look beyond immediate short-term savings, and think more radically about how to take cost out of the business and how to sustain this in the longer term.

22 In February 2012, we examined the cost reductions achieved by 12 departments including the Department for Business, Innovation and Skills, in our report *Cost reduction in central government: summary of progress*.⁹ We found that departments successfully cut spending by £7.9 billion (2.3 per cent) in 2010-11 compared to 2009-10, but further cuts are needed in most departments over the next four years. We concluded that fundamental changes are needed in government to achieve sustainable reductions on the scale required – departments will achieve long-term value for money only if they identify and implement new ways of delivering their objectives, with a permanently lower cost base.

23 The Department will have to manage a much tighter financial position following the 2010 spending review announcement. In particular, it will need to reduce its administrative budget by 42 per cent in real terms, and will have less flexibility to manage its resources due to the growth of hard-to-predict budgets and increased ring-fencing of monies.¹⁰

24 The core resources covered by the 2010 spending review announcement are forecast to reduce by 27 per cent, after inflation, between 2010-11 and 2014-15. However, this does not include a rise in

⁷ Available at: www.hm-treasury.gov.uk/psr_governance_corporate.htm

⁸ Department for Business, Innovation and Skills, Statement of Parliamentary Supply, Total outturn against estimate.

⁹ Comptroller and Auditor General, *Cost reduction in central government: summary of progress*, Session 2010-2012, HC 1788, National Audit Office, February 2012.

¹⁰ Comptroller and Auditor General, Department for Business, Innovation and Skills: *Financial management report*, Session 2012-13, HC 507, National Audit Office, July 2012.

student loan payments, much of which the Department expects will be repaid sometime after 2014-15. Including these transactions, total departmental spending is forecast to reduce by 6 per cent, after inflation, between 2010-11 and 2014-15.

25 The Department's cost reductions from 2010-11 to 2011-12 are shown in **Figure 5**. The Department has reduced administration, programme and capital expenditure.

26 The Department summarised its progress on cost reduction in its *Annual Report and Accounts*,¹¹ noting that closure of the Regional Development Agencies will save £174 million per year, restructuring of the core Department will reduce pay costs by £30 million per year and restructuring of the Skills Funding Agency will reduce pay costs by £16 million per year. The Department noted that administrative cost reductions delivered in 2011-12 included £15 million savings on the Department's estate and £40 million cashable savings from procurement.

NAO reports on financial management

27 In our *Financial Management Report*¹² on the Department published in July 2012 we commended the Department for keeping day-to-day financial management on track during a period of substantial organisational change, but noted that the Department must refocus efforts from procedural to strategic financial management if it is to meet the challenges imposed by the 2010 spending review settlement.

28 The report found that:

- The Department has effective financial management processes and capacity for stable circumstances, producing management accounts within a time frame that compares well across government and receiving true and fair audit opinions for its resource accounts.
- The governance structure effectively engaged the top management team with financial performance. However, these governance arrangements changed in April 2012, creating a risk that financial management issues may appear to have been downgraded just as the challenges are increasing.
- There are different financial reporting systems across partner organisations, making management reporting resource intensive and resulting in incomplete reporting. The Department aims to harmonise financial reporting by bringing its partner bodies into a shared service centre; however, our October 2011 report *Shared services in the Research Councils*¹³ found a number of problems with the shared service centre and recommended that substantial work was required to stabilise performance before any expansion in the client base took place. As of autumn 2012, the Department believe that the shared service centre's performance is stable, and aim to bring new customers, including the core Department, into the shared service centre from April 2013.

Figure 5

Department's cost reductions

Expenditure type	Nominal terms movement (2010-11 to 2011-12)	Comment
Programme (resource only)	Decrease of £1,561 million (7.5 per cent)	Reduction in the value of the student loan book and reduction of expenditure by HEFCE
Administrative (resource only)	Decrease of £91 million (10 per cent)	£91 million reduction in administration costs as a result of the closure of the RDAs and restructuring across BIS and its partner organisations
Capital	Decrease of £797 million (41 per cent)	Capital expenditure reductions made by HE, FE and the Research Councils

Source: *Department for Business, Innovation and Skills Annual Report and Accounts 2011-12, Financial Review*

11 Department for Business, Innovation and Skills, *Annual Report and Accounts 2011-12 – Financial Review*.

12 National Audit Office op. cit.

13 Comptroller and Auditor General, *Shared services in the Research Councils*, Session 2010–2012, HC 1459, National Audit Office, October 2011.

- The Department gives insufficient consideration to medium- and long-term financial management, considers future years infrequently, and there is insufficient monitoring of the balance sheet.
- There is an innovative framework for reporting non-financial performance, but this is not yet linked to the Department's spending, making it difficult to focus cost reduction on areas where there are inefficiencies or over-performance.
- There are difficulties in accurate forecasting, particularly related to the value of the student loan book, that resulted in a significant underspend for 2011-12.
- The Department takes a case-by-case approach to decision-making, including, in some instances, completing business cases after decisions had been made. A more structured approach would enhance scrutiny of significant financial decisions.
- There is a number of high-quality staff within the finance function, though the Department is reliant on a small number of individuals to bring about change.

NAO financial audit findings

29 The Department's 2011-12 Annual Report and Accounts were certified by the C&AG with an unqualified opinion. However, the accounts of five partner organisations have been qualified since the publication of the 2011 Departmental Overview. Details of these qualifications are summarised in the table at Appendix Three; none of the qualifications impacted on the C&AG's opinion on the Departmental group account.

30 A key reporting target for central government bodies is to ensure that their statutory accounts are certified by the NAO and laid in Parliament before the Parliamentary summer recess. During the 2010-11 audit cycle, eight accounts were not certified before summer recess. During the 2011-12 audit cycle, all 43 of the Department's partner organisations laid their accounts in Parliament before summer recess. The departmental group accounts for 2011-12 were laid after recess; as noted in paragraph 8 this was a consequence of the more complex set of accounts required for 2011-12 and does not detract from the Department's effective management of the Clear Line of Sight project.

Issues raised in Governance Statements

31 We work with the Department and its sponsored bodies to improve the quality and transparency of published Governance Statements. We aim to ensure that the processes by which Statements are produced are robust and that the Statements comply with HM Treasury guidance.

32 The Department's 2011-12 Governance Statement identified the following significant strategic risks:

- The demanding timeline for the closure of the regional development agencies.
- The significant reform of higher and further education policies.
- Receiving state aid approval from the EU for Royal Mail and Post Office Ltd.
- Ensuring that the Green Investment Bank strikes a balance between incentivising long-term financial success and protecting public funds.
- Driving economic growth despite ongoing events in the eurozone.

33 Other key governance activities were identified in the Governance Statement, including:

- **Restructuring the department** As noted in the section on Cost Reduction, the Department underwent significant restructuring in 2011-12 to achieve administrative expenditure savings. The Department has also reviewed its partner organisations, resulting in 26 bodies being abolished, merged or otherwise reformed.
- **Moving to shared corporate services** The Department has formalised plans for nine organisations to move to the Research Councils UK shared service platform, with further organisations planned to transfer over the spending review period.

34 Governance statements prepared by partner organisations reflect the issues identified in the departmental governance statement. For instance, the HEFCE governance statement considers risks arising from higher education reform and the Research Councils' governance statements consider risks relating to shared corporate services.

Part Three

Reported performance

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

36 The government aims to make more information available to the public to help improve accountability and deliver economic benefits. Our study reviewing early progress of the transparency agenda¹⁴ concluded that while the government has significantly increased the amount and type of public sector information released, it would not maximise the net benefits of transparency without an evaluative framework for measuring the success and value for money of its transparency initiatives.

37 The report included case studies on four trading funds sponsored by the Department (Ordnance Survey, Met Office, Land Registry and Companies House). The government announced some releases of information from these trading funds as open data, that is making the data freely available to use without restriction. The releases were based on a business case estimating benefits of £66 million to £87 million over 20 years, against costs of £11 million over that period. However, we considered that the estimated benefits were highly uncertain, that there may be additional costs as yet unidentified and that the planned release represented only a part of the economically valuable data sets held across the four trading funds.

38 The government has announced¹⁵ new governance arrangements for these trading funds, who continue their trading functions as before. They will form a Public Data Group, the objectives for which are additional to those with which the trading funds are individually charged. A separate Data Strategy Board will consider data to buy from the Public Data Group, and more widely, for free release.

Reporting performance: Annual Reports and Business Plans

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

- **input indicators:** a subset of the data gathered by the Department on the resources used in delivering services;
- **impact indicators:** designed to help the public judge whether departmental policies are having the desired effect; and
- **efficiency indicators:** setting out the cost of common operational areas to allow the public to compare the Department's operations to other organisations.

40 A structural reform section of the Plan provides a detailed list of actions and milestones designed to show the steps the Department is taking to implement the government's reform agenda.

¹⁴ Comptroller and Auditor General, *Implementing Transparency*, Session 2010–2012, HC 1833, National Audit Office, April 2012.

¹⁵ In its Autumn Statement 2011.

41 Departmental progress against indicators is published regularly in a Quarterly Data Summary, a standardised tool for reporting selected performance metrics for each government department in a way that facilitates comparison across departments. As well as the indicators described above, the Quarterly Data Summary includes information on overall departmental budgets and workforce statistics, and a wider selection of indicators on common areas of spend such as estates, procurement and ICT. An annual version of this information has been formally laid in Parliament in departments' 2011-12 Annual Reports and Accounts.

42 The Cabinet Office has reported that the accuracy of the data for all departments needs to dramatically improve¹⁶ and that there may not be common definitions and data collection processes between departments. These caveats mean that data on common areas of spend cannot currently be used to compare performance between departments and may be of limited use to judge individual departmental performance in its own right. Recognising the need to improve use of information across government, the Cabinet Office set out in the Civil Service Reform Plan its intention for departments to provide "good, comparable, accurate and reliable" management information. In addition, improving the quality of data is one of the key priorities within Departmental Open Data Strategies, published in June 2012. The Cabinet Office expects that, with improvements in data quality and timeliness, the public will be able to judge the performance of each department in a meaningful and understandable manner.

Performance reported by the Department

43 The Department's Business Plan¹⁷ (as revised in May 2012) sets out five priorities for delivery:

- Knowledge and Innovation – promote excellent universities and research and increased business innovation;
- Skills – build an internationally competitive skills base and promote more opportunities for individuals in realising their potential;
- Enterprise – boost enterprise and make this the decade of the entrepreneur; and rebalance the economy across sectors and across regions;
- Trade and investment – stimulate exports and inward investment; and
- Markets – create a positive business environment; and protect and empower consumers.

44 The Department reported on nine input indicators and 14 impact indicators in April 2012. For one indicator (on Social Mobility in Adulthood), no information was made available.¹⁸ The Department's Annual Report and Accounts notes that the 2012-13 Business Plan includes an expanded set of social mobility indicators, including measures relating to adulthood.

45 In the most recently published data on its performance against its Structural Reform Plan Actions (May 2012),¹⁹ the Department reported that no actions were overdue at the end of the quarter. This compares favourably with the previous year, when a total of nine actions were overdue.

16 Available at: www.cabinetoffice.gov.uk/resource-library/business-plan-quarterly-data-summary

17 *Department for Business, Innovation and Skills 2011 Business Plan Revisions*. Available at: www.bis.gov.uk/about/business-plan

18 *Department for Business, Innovation and Skills Quarterly Data Summary April 2012*. Available at: www.bis.gov.uk/transparency/quarterly-data-summary

19 Available at: www.bis.gov.uk/about/business-plan/monthly-performance-updates

46 Our review of the Department's indicators²⁰ concluded that the indicator set used gives coverage to the Department's Structural Reform Priorities, with a particular focus on Higher and Further Education. We did, however, note that some significant aspects of the Business Plan were omitted. For example, there is no coverage of Royal Mail in the indicator set. We recognised that the size of the Department's overall indicator set was limited, and that the Department therefore had to make difficult choices as to which indicators to include. We recommended that the Department should disclose the rationale underlying its selection of indicators and more explicitly highlight the limitations of the indicator set.

Testing the reliability of performance data across government

47 We have begun a three-year programme to examine the data systems underpinning the departmental business plan indicators and other key management information. In July 2012, we published²¹ the results of our examination of a sample of the Department for Business, Innovation and Skills' indicators and operational data systems used to report performance for the Department. This involved a detailed review of the processes and controls governing: the selection, collection, processing and analysis of data; the match between the Department's stated objectives and the indicators it has chosen; and the reporting of results.

48 We examined 14 data systems, of which eight were Business Plan indicators and six were Common Areas of Spend. Of the 14 systems examined, the majority were assessed as adequate or better, with only three (Full-time equivalent staff numbers, Average staff costs and Offers made from the Regional Growth Fund) assessed as less than adequate.

The future of information management

49 Departments released updated versions of their Business Plans in May 2012 which included changes to their priorities and indicators. The Department describes alignment between the previous and current priorities as: "The Structural Reform Priority themes have been rearranged to better align with the Department's internal structure and monitoring, but cover all the same coalition priorities as before".²²

50 Departments have also aligned the input and impact indicators with their priorities, so that the public can better understand how they are meant to be used for accountability. The changes are a step towards the alignment of costs and results which would allow for assessment of value for money but do not affect the data systems underlying published indicators, or the reliability of subsequent data.

51 The Cabinet Office has recognised the need to improve use of information across government. In the Civil Service Reform Plan²³ it set out its intention for departments to provide "good, comparable, accurate and reliable" Management Information. The Cabinet Office has given Lord Browne, as lead Non-Executive Director across government, a remit to examine the information received by departmental boards. In addition, improving the quality of data is one of the key priorities within the Open Data Strategies, published in June 2012. Our future work will consider these government initiatives around improving data quality, as well as continuing to test the reliability of specific data systems.

20 National Audit Office *Review of the data systems for the Department for Business, Innovation and Skills July 2012*. Available at: www.nao.org.uk/publications/1213/review_data_systems_for_bis.aspx

21 National Audit Office op.cit

22 Available at: www.bis.gov.uk/assets/biscore/corporate/docs/b/bis-2011-business-plan-revisions.pdf

23 Available at: resources.civilservice.gov.uk/wp-content/uploads/2012/06/Civil-Service-Reform-Plan-acc-final.pdf

Use of information by the Department

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

53 The Better Regulation Executive collaborated with the NAO and the Local Better Regulation Office to produce the *Business Perceptions Survey 2012*.²⁴ This is intended to track if, and how, businesses' experience of regulation changes as a result of government initiatives. The 2012 survey found that fewer businesses felt that the level of regulation in the UK is an obstacle to their success compared to three years ago (55 per cent in 2012 compared to 62 per cent in 2009).

54 In our report on *Reducing bureaucracy in further education in England*²⁵ we noted that the Department and the Skills Funding Agency had recognised that the information and assurance system for further education provision needed to change, and had worked extensively with further education providers to understand how these systems affected them and how they could be streamlined. We concluded that, while the Department did have a qualitative understanding of the administrative burdens associated with their assurance systems, it had not quantified its understanding of their costs and benefits. This reduced its ability to effectively manage administrative cost reduction as a programme.

55 Our report on *Adult Apprenticeships*²⁶ was broadly positive about the management of the apprenticeship programme, concluding that the Department had learned lessons from Train to Gain. The report assessed the economic returns delivered by the apprenticeship programme, and concluded that adult apprenticeships offer a good return for the public spending involved, with a return of around £18 for every £1 of government spending.

56 However, this estimate was based upon the Department's assumption that all public funding generates additionality; that is, it assumes that all publicly funded training would not have occurred without the funding. The Department does not have data to support this assumption, and has not assessed the level of additionality delivered. Any reduction in additionality would result in an equivalent decrease in the economic returns of the programme. The Committee of Public Accounts further noted that, with better information, the Department would be in a stronger position to promote the benefits of apprenticeships to employers and individuals.²⁷

57 The report also examined the basis for the tariffs that the Skills Funding Agency pays to fund apprenticeships, and concluded that tariffs are set without sufficiently robust, up-to-date information on the cost of provision. There is therefore a risk that some apprenticeship frameworks may be subsidised more than others.

Other issues identified in NAO reports

58 Our report on the *Regional Growth Fund*²⁸ estimated that, if the Fund delivers as expected, there will be 41,000 additional full-time-equivalent private sector jobs in the economy for seven years. We found that bids for funds which were accepted offered substantially better returns than those not selected, and that the Fund was meeting its objective of supporting private sector jobs in areas that rely more on the public sector. However, we found that there was scope for the fund to have generated more jobs relative to the amount of grant awarded.

59 The Committee of Public Accounts, in its report on the *Regional Growth Fund*,²⁹ was concerned over the progress of the programme. Of £1.4 billion set aside for the Fund, only £60 million has been spent on front-line projects over the first two years of the Fund and only 5,200 jobs could be claimed as having been created or safeguarded in that period. The Committee also highlighted that most of the money paid to the Fund had been parked in intermediary bodies over which government had limited control.

24 National Audit Office, *Business Perceptions Survey 2012*. Available at: www.nao.org.uk/publications/1213/business_perceptions_2012.aspx

25 Comptroller and Auditor General, *Reducing bureaucracy in further education in England*, Session 2010–2012, HC 1590, National Audit Office, December 2011.

26 Comptroller and Auditor General, *Adult Apprenticeships*, Session 2010–2012, HC 1787, National Audit Office, February 2012.

27 HC Committee of Public Accounts, *Adult Apprenticeships*, Eighty-fourth Report of Session 2010–12. Available at: www.parliament.uk/documents/TSO-PDF/committee-reports/pubacc.1875.pdf

28 Comptroller and Auditor General, *The Regional Growth Fund*, Session 2012–13, HC 17, National Audit Office, May 2012.

29 HC Committee of Public Accounts, *The Regional Growth Fund*, Fifth Report of Session 2012–13, HC 17. Available at: www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/news/regional-growth-fund-report/

60 Our report on *Shared Services in the Research Councils*³⁰ noted a number of operational issues relating to the Research Councils' Shared Service Centre. The Centre encountered difficulties producing robust financial and management information and Councils responded to this by running parallel systems or managing their business without adequate data. The Councils took a decision in late 2010 to defer delivery of some of their 2010-11 accounts until after the Parliamentary summer recess. This was based on their assessment of the scale of issues involved, the timescales available to fix these issues and the risk of disrupting implementation of the new grants system. By the end of July 2011, two Councils had submitted audited accounts to Parliament for 2010-11. Accounts for the other five Councils were certified between November 2011 and March 2012.

61 The Department's *Governance Statement*³¹ for 2011-12 reported that the performance of the Shared Service Centre had improved significantly during 2011-12. As noted in the section on financial audit findings, all of the Shared Service Centre's client bodies laid their 2011-12 accounts before Parliament before the summer recess deadline. The Department has formalised plans for nine organisations to move to the Shared Service Centre, with further organisations planned to transfer over the spending review period.

62 In our report on *Reducing Bureaucracy in Further Education in England*,³² we noted that the Department's and the Skills Funding Agency's governance structures allowed them to effectively monitor the implementation of their planned reforms for the sector. The Department includes representatives from across the sector and from other government organisations. This enables knowledge sharing on the impact of changes. However, we noted that simplification of further education bureaucracy was not managed as a programme; this was partly a result of the accountability framework in place whereby further education delivery is the responsibility of two departments.

30 Comptroller and Auditor General, *Shared Services in the Research Councils*, Session 2010–2012, HC 1459, National Audit Office, October 2011.

31 *Department for Business, Innovation and Skills, Annual Report and Accounts 2011-12 – Governance Statement*.

32 National Audit Office op.cit

Appendix One

Department's sponsored bodies at 1 April 2012

Executive Agencies

Insolvency Service

National Measurement Office

UK Space Agency

Crown Executive NDPBs

Advisory, Conciliation and Arbitration Service

Skills Funding Agency

Trading Funds

Companies House

Intellectual Property Office

Land Registry

Ordnance Survey

Meteorological Office

Executive Non-Departmental Public Bodies

Capital for Enterprise Limited

Competition Commission

Competition Service

CITB Construction Skills

Consumer Focus

Engineering Construction Industry Training Board

Higher Education Funding Council for England

Local Better Regulation Office

National Endowment for Science, Technology and Arts

Office for Fair Access

Student Loans Company Ltd

Technology Strategy Board

UK Atomic Energy Authority

UK Commission for Employment & Skills

Research Councils

Arts and Humanities Research Council

Biotechnology and Biological Sciences Research Council

Economic and Social Research Council

Engineering and Physical Sciences Research Council

Medical Research Council

Natural Environment Research Council

Science and Technology Facilities Council

Regional Development Agencies¹

Advantage West Midlands

East Midlands Development Agency

East of England Development Agency

North West Development Agency

One North East

South East of England Development Agency

South West of England Regional Development Agency

Yorkshire Forward

Public Corporations

British Nuclear Fuels Plc

Royal Mail Holdings Plc

British Hallmarking Council

Advisory NDPBs

Council for Science and Technology

Industrial Development Advisory Board

Low Pay Commission

Office of Manpower Economics

Tribunal NDPBs	Other
Central Arbitration Committee	British Academy
Competition Appeal Tribunal	British Standards Institution
Copyright Tribunal	British Shipbuilders
Insolvency Practitioners Tribunal	Citizens Advice
	Citizens Advice Scotland
Non-ministerial Departments	Community Interest Companies Regulator
Export Credit Guarantee Department	Financial Reporting Council Limited
Office of Fair Trading	Information Authority
UK Trade & Investment (jointly sponsored with FCO)	Learning and Skills Improvement Service
Government Owned Contractor Operated Laboratory	National Council for Graduate Entrepreneurship
National Physical Laboratory	RCUK Shared Service Centre Limited
	Royal Academy of Engineering
	Royal Society
	Royal Society for the Prevention of Accidents
	UK Accreditation Service
	University for Industry Charitable Trust

NOTE

1 The Regional Development Agencies ceased operations on 31 March 2012, and were formally wound up on 1 July 2012.

Appendix Two

Results of the Civil Service People Survey 2011

Question scores (% strongly agree or agree, % yes)

Leadership and managing change

I feel that the department as a whole is managed well	40
Senior civil servants in the Department are sufficiently visible	46
I believe the actions of senior civil servants are consistent with the Department's values	39
I believe that the Departmental board has a clear vision for the future of the Department	39
Overall, I have confidence in the decisions made by the Department's senior civil servants	36
I feel that change is managed well in the Department	27
When changes are made in the Department they are usually for the better	23
The Department keeps me informed about matters that affect me	55
I have the opportunity to contribute my views before decisions are made that affect me	36
I think it is safe to challenge the way things are done in the Department	38

Organisational objectives and purpose

I have a clear understanding of the Department's purpose	84
I have a clear understanding of the Department's objectives	79
I understand how my work contributes to the Department's objectives	81

Civil service overall

Department for Business, Innovation and Skills (excluding agencies)	Cabinet Office (excluding agencies)	Department for Communities and Local Government (excluding agencies)	Department for Culture, Media and Sport (excluding agencies)	Ministry of Defence (excluding agencies)	Department for Education	Department of Energy and Climate Change	Department for Environment, Food and Rural Affairs (excluding agencies)	Foreign and Commonwealth Office (excluding agencies)	Department of Health (excluding agencies)	HM Revenue & Customs	HM Treasury (excluding agencies)	Home Office (excluding agencies)	Department for International Development	Ministry of Justice (excluding agencies)	Department for Transport (excluding agencies)	Department for Work and Pensions
31	38	23	37	20	49	41	31	54	33	18	55	44	60	43	45	23
46	49	35	47	27	53	62	44	56	53	31	67	50	68	47	59	21
34	40	24	39	27	46	48	34	52	41	25	52	44	57	42	46	21
29	33	22	31	20	43	30	21	51	28	22	39	33	60	39	36	20
28	38	21	32	17	43	43	27	47	33	17	53	41	53	38	42	16
24	27	20	33	12	32	31	21	40	19	15	42	24	40	31	31	19
17	22	10	20	9	21	26	16	34	12	13	33	22	29	26	21	14
59	55	50	60	41	58	64	56	60	53	39	65	62	68	56	64	39
32	37	28	47	19	37	36	38	39	37	18	47	38	47	36	39	18
33	41	25	42	31	39	41	40	43	33	27	55	39	43	36	45	27
77	73	57	73	80	85	90	75	82	69	73	88	85	94	78	79	73
70	66	53	67	72	81	85	70	79	63	70	78	80	93	72	74	71
75	71	61	73	76	82	88	76	83	72	73	81	82	90	76	76	73

Appendix Three

Account qualifications 2011-12

Partner organisation	Detail of qualification	Impact on group account ¹
East of England Development Agency (EEDA)	Ex-gratia payments made to departing staff breached the Agency's pay remit. The Department was asked to retrospectively approve the payments but declined. While the amount (£51,000) is not material in accounting terms, the C&AG qualified his opinion in view of wider considerations of public sector pay restraint.	None; immaterial in the context of the resource account
Biotechnology and Biological Sciences Research Council (BBSRC)	The Council's accounts for 2010-11 and 2011-12 were qualified due to non-consolidation of two of its sponsored Institutes. BBSRC no longer controls the Institutes as of 31 March 2012 so this will not be an issue in future years.	None; the Department was not required to consolidate the Institutes
Medical Research Council (MRC)	The Council's 2011-12 accounts were qualified due to non-consolidation of a subsidiary (MRC-T) that MRC controlled from 1 April 2011 to 31 January 2012. The Council should have shown the subsidiaries' results up to the disposal date and the disposal.	None; MRC-T was separately consolidated into the departmental group account
Science and Technology Facilities Council (STFC)	For the 2010-11 accounts, insufficient financial information was available for the £26.7m investment in the Institut Laue-Langevin (ILL) joint venture, so the scope of our audit opinion was limited. For the 2011-12 accounts, STFC was able to present us with sufficient financial information for us to audit the investment, so the scope limitation was removed.	None; the Department was not required to consolidate ILL
Skills Funding Agency (SFA)	The Agency's 2011-12 accounts were qualified due to non-consolidation of further education colleges. The Agency's control over colleges was removed in November 2011 so this will not be an issue in future years.	None; the Department was not required to consolidate further education colleges

NOTE

- 1 Three of the qualifications (BBSRC, STFC and SFA) are due to consolidation issues. These do not affect the group accounts as the boundary for the departmental resource account is determined by HM Treasury's delegation order rather than the requirements of International Accounting Standards.

Appendix Four

Publications by the NAO on the Department since 2009-10

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

Publication date	Report title	HC number	Parliamentary session
26 July 2012	Review of the data systems for the Department for Business, Innovation and Skills	www.nao.org.uk/publications/1213/review_data_systems_for_bis.aspx	
12 July 2012	Department for Business, Innovation and 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/publications/1213/eeda_ccounts_2011-12.aspx	
29 June 2012	Business Perceptions Survey 2012	www.nao.org.uk/publications/1213/business_perceptions_2012.aspx	
26 June 2012	Skills Funding Agency Accounts 2011-12	www.nao.org.uk/publications/1213/sfa_accounts_2011-12.aspx	
11 May 2012	The Regional Growth Fund	HC 17	2012-13
1 February 2012	Adult apprenticeships	HC 1787	2010-12
19 December 2011	Report of the Comptroller and Auditor General on the 2010-11 accounts of the Science and Technology Facilities Council	www.nao.org.uk/publications/1012/stfc_accounts.aspx	
16 December 2011	Reducing bureaucracy in further education in England	HC 1590	2010-12
21 October 2011	Shared services in the Research Councils	HC 1459	2010-12
3 October 2011	Departmental Overview: A summary of the NAO's work on the Department for Business, Innovation and Skills 2010-11	www.nao.org.uk/publications/1012/departmental_overview_bis.aspx	
19 July 2011	Skills Funding Agency Accounts 2010-11	HC 1393	2010-2011
15 June 2011	Protecting consumers – the system for enforcing consumer law	HC 1087	2010-2011
4 April 2011	Biotechnology and Biological Sciences Research Council Accounts 2009-10	HC 585	2010-2011
4 March 2011	Regulating financial sustainability in higher education	HC 816	2010-2011
8 December 2010	Science and Technology Facilities Council Accounts 2009-10	HC 228	2010-2011
10 November 2010	Ofcom: The effectiveness of converged regulation	HC 490	2010-2011

Publication date	Report title	HC number	Parliamentary session
2 July 2010	Short guide to the NAO's work on the Department for Business, Innovation and Skills	www.nao.org.uk/publications/1011/short_guide_bis.aspx	
30 March 2010	Regenerating the English Regions: Regional Development Agencies' support to physical regeneration projects	HC 214	2009-10
26 March 2010	Department for Business, Innovation and Skills: Support to business during recession	HC 490	2009-10
19 March 2010	The Customer First Programme: Delivery of student finance	HC 296	2009-10
4 February 2010	Department for Business, Innovation and Skills: Helping over-indebted consumers	HC 292	2009-10
10 December 2009	Department for Business, Innovation and Skills: Venture capital support to small businesses	HC 23	2009-10
Reports on the Former Department for Innovation, Universities and Skills (Since June 2008)			
October 2009	Performance of the Department for Innovation, Universities and Skills, 2008-09, Briefing for the Business, Innovation and Skills Committee	www.nao.org.uk/publications/0910/dius_briefing.aspx	
21 July 2009	Train to Gain: Developing the skills of the workforce	HC 879	2008-09
Reports on the Former Department for Business, Enterprise and Regulatory Reform (Since June 2008)			
7 December 2009	Performance of the Department for Business, Enterprise and Regulatory Reform 2008-09, Briefing for the Business, Innovation and Skills Committee	www.nao.org.uk/publications/0910/berr_briefing.aspx	
5 June 2009	Department for Business, Enterprise and Regulatory Reform: Oversight of the Post Office Network Change Programme	HC 558	2008-09
2 April 2009	UK Trade and Investment: Trade Support	HC 297	2008-09

Appendix Five

Recent cross-government NAO reports of relevance to the Department

Publication date	Report title	HC number	Parliamentary session
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
30 March 2012	Review: The NAO's work on local delivery	www.nao.org.uk/publications/1213/nao_work_on_local_delivery.aspx	
20 March 2012	The Government Procurement Card	HC 1828	2010-2012
15 March 2012	Managing early departures in central government	HC 1795	2010-2012
6 March 2012	Efficiency and reform in government corporate functions through shared service centres	HC 1790	2010-2012
2 March 2012	Improving the efficiency of central government office property	HC 1826	2010-2012
2 February 2012	Cost reduction in central government: summary of progress	HC 1788	2010-2012
19 January 2012	Reorganising central government bodies	HC 1703	2010-2012
21 December 2011	Implementing the government ICT Strategy: six-month review of progress	HC 1594	2010-2012
9 December 2011	Digital Britain One: Shared infrastructure and services for government online	HC 1589	2010-2012
6 December 2011	NAO Guide: Initiating successful projects	www.nao.org.uk/publications/1012/initiating_successful_projects.aspx	
27 September 2011	Auditing Behaviour Change	www.nao.org.uk/publications/1012/auditing_behaviour_change.aspx	
13 July 2011	Identifying and meeting central government's skills requirements	HC 1276	2010-2012
3 March 2011	Progress in improving financial management in government	HC 487	2010-11
17 February 2011	Delivering regulatory reform	HC 758	2010-11

Where to find out more

The National Audit Office website is

www.nao.org.uk

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