Department for Communities and Local Government Group Accounts 2012-13

The Report of the Comptroller and Auditor General to the House of Commons

Introduction

1. The Department for Communities and Local Government is responsible for the following Coalition priorities: decentralise power as far as possible; reinvigorate accountability, democracy and participation (including transparency); support and incentivise local sustainable growth; meet people's housing aspirations; and put communities in charge of planning.

2. The main cash flows of the Department relate to grants to local authorities and other bodies, grant-in-aid to Arm's Length Bodies and internal administrative expenditure. The Department's main source of receipts is EU grants.

3. The Department prepares its accounts in accordance with the Government Financial Reporting Manual (FReM) and HM Treasury directions issued under the Government Resources and Accounts Act 2000. Under the FReM, the Department is required to apply International Financial Reporting Standards as adapted or interpreted for the public sector.

Purpose of Report

4. The net expenditure of government departments is authorised by Acts of Parliament. These Acts set a series of annual limits on the net expenditure which each department may not exceed and on the total cash each department can use. Where these limits are breached, I qualify my regularity opinion on the financial statements. HM Treasury then prepares a statement of all such excesses in the year and requests that the House of Commons authorise the expenditure by passing an additional Act of Parliament, which is part of the Supply and Appropriation (Anticipation and Adjustments) Act.

5. The 2012-13 Statement of Parliamentary Supply shows that the Department had a Net Cash Requirement Estimate of £28,971,571,000 and an outturn of £29,027,027,000. This is, therefore, a breach of the Net Cash Requirement Estimate control total and I have qualified my opinion in this regard.

6. The Statement of Parliamentary Supply also shows that the Department had a net Local Government Capital Departmental Expenditure Limit of £80,000 and an outturn of £1,221,000. This is, therefore, a breach of the Local Government Capital Departmental Expenditure Limit control total and I have further qualified my opinion in this regard.

Explanation for Qualified Audit Opinions

Net Cash Requirement

7. The breach of the voted Net Cash Requirement arose because the Department failed to identify and adjust for all movements in working capital when deriving its Net Cash Requirement Estimate.[1] The working capital adjustment to derive the Net Cash Requirement should have been a cash increase of £980 million; the adjustment in the Main Estimate was a cash increase of £143 million, posted within the 'add cash grant-in-aid' line.

8. The Department did not monitor its position against this control total at any point during the year and, hence, failed to detect that outturn was above the normal profile from the start of the financial year. As the Department was unaware of its position, it reduced its Net Cash Requirement Estimate in the Supplementary Estimate by £340 million, arising from reductions to its capital and resource requirements.

[1] Working capital is the net total of current receivables, cash, inventories (together known as current assets) and current payables (current liabilities). Where current liabilities exceed current assets, additional cash will be needed to meet these liabilities as they fall due in addition to the cash required to fund in-year activity.

9. The Department became aware of its proximity to the Net Cash Requirement Estimate limit after HM Treasury contacted it on 27 February to advise that it was close to drawing up to its Net Cash Requirement. This was too late for the Department to manage its cash position sufficiently to avoid an excess position.

10. In responding to the risk of a breach of this voted total, the Department took the decision that it would not manage its cash position by deferring payment on front-line services. Consequently, having drawn cash up to its available cash limit from the Consolidated Fund, the Department met further liabilities at year-end by means of an unauthorised bank overdraft and finished the year £217 million overdrawn. The Department incurred penalty interest charges of £0.02 million, imposed by HM Treasury, as a result of this decision.

11. The Department immediately commissioned a review of cash management by their Cross Departmental Internal Audit Service in response to the breach. The recommendations, which have been accepted by management, broadly fall into four main categories: increasing awareness and understanding of the Net Cash Requirement (Estimate, outturn and actual cash required) throughout the Department; redesigning the process for the calculation of the Net Cash Requirement Estimate and putting quality assurance arrangements in place; clearly allocating responsibility for approving the Net Cash Requirement Estimate; and developing in-year monitoring and sharing this between the relevant teams.

12. The accuracy of forecasts will become more important in 2013-14 due to a number of reforms and the interruption to funding receipts from the EU which will all have an impact on cash flows.

Capital Local Government Departmental Expenditure Limit

13. The breach of the Capital Local Government Departmental Expenditure Limit (LG CDEL) arose as two Arm's Length Bodies - the Valuation Tribunal Service (VTS) and the Commission of Local Administration in England (CLAE) - exceeded their delegated capital budgets. Individually, either excess reported by these bodies would have caused an overall breach for the Department.

14. The LG DEL budget is managed and controlled separately from the DCLG Communities DEL budget within the Department. The vast majority of spend within this budget comprises revenue payments to local authorities under formula grants (Revenue Support Grant and National Non-Domestic Rates). The VTS and CLAE are the only two Arm's Length Bodies within the Local Government budget, and the only elements that give rise to capital expenditure.

15. The CLAE excess arose following senior staff changes within the organisation in January. The new incumbents undertook a review of capitalised spend on their IT system upgrade after the financial year-end. This led to a late adjustment in the categorisation of some spend from resource to capital and, hence, pushed their outturn above their delegated capital budget and into excess.

16. The VTS excess also concerned IT systems enhancements; these were necessary following the policy decision that Valuation Tribunals would hear Council Tax Reduction appeals. Although the IT spend was approved by the Department's sponsorship team, the team did not include a financial specialist. As a result, the financial consequences of this policy decision were not understood and the VTS reported capital expenditure at year-end against a delegated nil budget.

17. The Department immediately commissioned a further report by its Cross Departmental Internal Audit Service in response to this breach. The main recommendations are that financial expertise is drawn into the sponsorship team, and for the Department to work with these Arm's Length Bodies to ensure they understand their roles and responsibilities in respect of Parliamentary financial control and have the capacity and capability to meet these requirements. These have been accepted by the Department.

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26 June 2013