



**Government response to the
Select Committee Report on the
Department for Communities
and Local Government's
Annual Report 2008**

May 2009



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Presented to Parliament by
the Secretary of State for Communities and Local Government
by Command of Her Majesty
May 2009

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INTRODUCTION

1. We are grateful to the Committee for its inquiry into the Department's 2008 Annual Report. We have considered the Committee's comments carefully and provide our responses to each of its conclusions and recommendations herein.

RESPONSE TO THE COMMITTEE'S CONCLUSIONS AND RECOMMENDATIONS

Strengthening capacity

Recommendation 1

We commend the Department for the progress which it has made towards addressing the areas for development identified in the 2006 Capability Review, and for the successes it has achieved in the last year which demonstrate that progress being translated into real advances on the ground. (Paragraph 8)

Recommendation 2

The results of the most recent Capability Review suggest that there is still some way to go before CLG can be said to be performing with full effectiveness. (Paragraph 11)

Recommendation 4

Notwithstanding the advances noted in the Department's Annual Report and in the Capability Review, we have yet to see consistent and sustained evidence that the Department possesses the full range of skills required for the effective formulation and delivery of the policies for which it is responsible. We look forward to seeing further progress in the Department's 2009 Report. (Paragraph 13)

2. We draw confidence from the range of real-world successes since our original Capability Review and from the progress highlighted in the Committee's report on our Departmental Annual Report.

3. Each of these achievements was underpinned by significantly enhanced capacities in analysis and the use of evidence, in delivery, and in stakeholder engagement across Whitehall and beyond. Policy and delivery successes have been supported by sustained improvements in our corporate systems and structures and the engagement of staff across the organisation.

4. The Capability Review offers useful feedback on the Department's progress since 2006. It provides us with good challenges and pointers for action in a number of development areas where there is a need for further and faster progress. In our response to the Review the Board and Senior Civil Service committed to securing this further progress over the next 12 months.

Performing with full effectiveness

Governance

5. The growing effectiveness of our governance structures was recognised by the Capability Review. We continue to build and reinforce the role of the Board delivery sub-committee and programme boards. We are now rolling out our successful tailored project and programme management training programme to a wider range of staff, coaching project senior responsible owners on their distinctive role, and following up participants in a systematic way to monitor the impact on their skills and capability.

6. We have increased the number of our non-executive board members and focused on attracting individuals with strong expertise and track records of success in their fields. We have six senior non-executives, drawn from across the third sector, local government and business, who are engaging in a range of ways in strengthening our organisational capacity. We will capitalise on their contribution in leading and inspiring change, and reflect their wider insights in our leadership and management of the Department.

7. Working across structural and functional boundaries, within and beyond the Department, we are tackling the vestiges of 'silo working'. We are also tackling poor performance by increasing the focus on our culture of performance outcomes, coaching our managers to give and receive difficult feedback, and streamlining our appraisal process.

Flexibility

8. Working flexibly with constrained resources is an increasing imperative as we respond to the challenge of a demanding agenda. Through a strengthened business planning process, we are improving the match of our resources and capacity to our rapidly changing priorities, expanding flexible deployment of staff.

9. We are developing new models for business change to help us deliver more effectively. Our aim is to simplify line management structures and decision chains, to offer more challenging roles and raise aspiration across the Department and to bring greater flexibility and improved effectiveness to the Department while living within our financial envelope.

Skills required for the effective formulation and delivery of policies

Evidence and analysis

10. The Department is now more skilled at basing choices on evidence and use of analysis. We are building on the substantial improvements already achieved, with plans to enhance joint working by analysts and policy makers at the earliest stages by co-location, exploiting new analytical tools to enhance

the input to the policy development process, and building consistently good practice in all areas by monitoring the analytical quality of submissions to ministers and providing feedback.

Learning and development

11. We have re-designed the way we support the learning and development of our staff to ensure we are well positioned to respond to the challenges we face now and in the future. We are introducing a new skills training programme to ensure that everyone at every grade has the core skills and abilities they need to deliver effectively for Communities and Local Government. We are strengthening our leadership team and launching a talent management and succession planning exercise as part of our drive to improve our understanding of and engagement with the grade 6/7 cadre. We see this group of staff as key to our success, both as the front line in our relationship with delivery partners and as our leaders of tomorrow.

Performance management

12. We are strengthening performance management at all levels in the organisation to ensure that more staff feel their performance is managed well and that poor performance is managed effectively.

Living our values

13. Underpinning improvements to our performance on policy and delivery is the work we have done, involving colleagues across the Department at all levels, to develop our new departmental values. The Board and Senior Civil Service have committed themselves collectively to engaging and enthusing the wider staff population, particularly by embedding our values through 'Making it Happen' (launched in May 2008). Action plans have been developed to embed these values across the organisation through a programme of cultural and behavioural change. The Board's own Values Action Plan will act as a catalyst for more collaborative management and decision-making.

BULLYING, DISCRIMINATION AND HARASSMENT

Recommendation 5

We remain concerned about the persistence of poor management culture in CLG. (Paragraph 16)

Recommendation 6

Poor management culture in CLG is not just a problem for those who work there, as the Capability Review recognises. Tackling that culture is an integral part of improving the Department's effectiveness and its ability to deliver. We do not doubt Departmental senior management's commitment to dealing with the problem. We continue to doubt,

however, whether it is doing so in the most effective way. We reiterate our recommendation that CLG review the effectiveness and value for money of the actions which it has taken so far to combat poor management culture. It should do so with a view to ensuring that its efforts are directed towards steps which will lead to demonstrable improvements in the Department's ability, as the Capability Review recommended, "to identify and respond to problems and opportunities". (Paragraph 17)

14. Since our inception in 2006, we have been concerned to ensure that everyone within Communities and Local Government is treated with dignity and respect and to develop a management culture that reflects that. The Board, collectively, and myself personally, have been determined to ensure that all staff understand and adhere to this and we have made significant progress in that regard. In a three-month consultation, we engaged more than half of our staff in consultation across the Department about what most mattered to them, how we work together and about the kind of themes they wanted to see reflected in the Department's values. We listened to what they said about openness, professionalism and the freedom to speak up and be heard and these themes come through strongly in our new values. However, that doesn't mean that we have become complacent about these important issues and we recognise that more needs to be done in relation to a number of cultural issues.

15. More recently, we have been focussing on ways in which we can get the best out of our staff in a way that maximises their potential but doesn't have an adverse impact on their overall wellbeing. In this we face challenges that are experienced by employers everywhere. A YouGov poll for the TUC published on 4 September 2008 revealed that out of a survey of 3.5 million people, 14 per cent said they had been bullied at work (19 per cent in the public sector compared to 12 per cent in the private sector). Our staff surveys in 2007 showed that for bullying and harassment, the number of staff agreeing that it existed had decreased from 15 per cent to 12 per cent, and for discrimination it had shifted from 8 per cent to 7 per cent. These are not statistically significant changes, for us it was an indicator that things were going in the right direction although we recognize that we still have some people who are unhappy at the way in which they are treated. More recently, in a pilot civil-service survey of our Grade 6 and 7 managers in February of this year, 84 per cent of respondents agreed that they are treated with fairness and respect, the highest level of agreement in the eleven organisations taking part within the civil service.

16. Importantly, the Department recognises that effective performance management is a key activity for our people and can lead to improvements in organisational performance as part of an integrated people strategy. Accordingly, we have worked hard in recent months to improve our performance management culture both organisationally and in relation to individual members of staff. In doing so, the Department has been mindful of the Committee's comments in relation to the effectiveness of our earlier approach in this area. In developing our revised strategy, we have drawn on

the approach to performance management being co-ordinated by Cabinet Office for the wider civil service and to other examples of best practice including the impact of employee engagement.

17. Again there is some evidence that our revised approach is working. Increased investment in project and programme management training and individual performance management workshops is delivering some improvement; 98 per cent of performance management reports were returned within the deadline in 2008 and from our Pulse Survey in October 2008: 66 per cent agree their performance is evaluated fairly and 60 per cent agree that their performance has improved as a result of the skills they have developed in the last year.

18. However there remains more to do. The Pulse Survey results also showed that only 20 per cent of participants agreed that we are making progress in tackling poor performance. To help us understand this result, subsequent focus groups have shown that we need to make progress in three main areas. On process, HR has responded to criticism of the tools available to support performance management by introducing a range of tools to complement the main appraisal system. This includes a new 360 degree feedback mechanism linked specifically to our published values, a performance management toolkit to provide tips and techniques for managers and staff and an e-learning module to explain how to conduct performance appraisals.

19. Further, we have developed a revised learning and development strategy following a review of the way in which we use central and local funding to support individual and group learning and skills development. The Committee may like to note that the Department was commended by the Government Skills Peer Panels for its work on its Skills Pledge which formed part of the Department's overall skills strategy. In addition, a series of development events and core management skill workshops have been running which have seen keen interest and take-up, particularly from junior grades. This has been expanded to include specific events to provide an HR for line managers series which will also support the work on wellbeing. We are now working closely with colleagues across government in support of a leadership framework for the civil service.

20. More specifically, our Pairing for Performance (P4P) programme was launched with the successful licensing of our internal Champions – members of staff from within the Business at a junior grade. The Champions support the buddies (staff up to HEO grade) as they pair up with SCS members, over a three month programme. This is a form of reverse mentoring with upward feedback being given to the SCS staff member.

21. We have also completed our first programme to develop internally qualified, professional coaches. This provides a valuable resource to the Department in supporting staff who require one to one coaching but without the need to bring in external coaches. A second cohort has started the programme and includes members of staff from across the wider CLG group.

22. More broadly, we launched a volunteering strategy in the autumn which allows every member of staff to benefit from three paid days for volunteering in the community or with third sector organisations and charities etc. This will be supported with a volunteering fair in the spring.

23. Finally, the Department is responding to criticisms of its performance management culture through the Making it Happen programme. The new Departmental values are being built into a revised set of leadership and competency frameworks for use in a range of people processes from recruitment and selection to performance appraisal. Accordingly, individual and organisational performance management is at the heart of our Making it Happen programme.

24. Through that programme, we have set out a clear statement of our values and how they apply within the Department and in our relationships with our stakeholders. The challenge now is to find ways in which these values can help us to perform better and help the Department grow and improve. To achieve this, every Directorate has its own 'Making it Happen' action plan which has been developed with staff to address areas where they feel the management culture and practice within their teams requires change to meet the challenging standards we have set for ourselves. Through its own action plan, the Board has committed to work with Directors to ensure the action plans are delivered. Mike Falvey, Director General for HR and Business Change, has been meeting each director since February 2009 to assess the progress made within their directorate. Evidence from these meetings demonstrates that staff at all grades across the organisation have undertaken a substantial programme of work to embed our values in everyday practice. We are measuring the extent to which staff perceptions of the extent to which we are living our values has shifted. We are introducing a new Making It Happen award to celebrate good practice. This will provide a high profile launch for the second year of the campaign.

PUBLIC SERVICE AGREEMENTS

Recommendation 7

We commend the Permanent Secretary and his team for continuing to improve the standard of the Departmental Annual Report and for the clear and helpful presentation of the information it contains, which makes a significant contribution to the ability of Parliament and the public to hold the Department to account. (Paragraph 18)

25. We are pleased that the Committee recognise the quality of our reporting to Parliament, and will continue to seek opportunities to improve it further.

Recommendation 8

Our view is that the Department's overall performance so far very much reflects the verdict of the Cabinet Office's most recent Capability

Review: good progress; an encouraging ‘direction of travel’; some important achievements; but overall still some way short of maximum effectiveness. We accept the Department’s argument that the ‘headline’ summary of achievement against the nine Public Service Agreement targets set for it following the 2004 Comprehensive Spending Review masks its actual performance, which looks rather better when assessed by the total number of sub-targets and indicators rated “ahead”, “met” or “on course”. However, even good progress on, or achievement of, 65per cent of those sub-targets and indicators cannot be described as impressive. We commend the Department for its achievements so far, but hope that performance as judged by achievement of the targets and indicators set for it will be shown to have improved significantly in future assessments. (Paragraph 22)

Recommendation 9

If CLG’s Public Service Agreements are to serve their purpose not only as a means of expressing the Government’s priorities and galvanising action, but also of enabling Parliament and the public of holding the Department to account for the £34bn of public money for which it is responsible, it must be possible to rely on the Department’s reported performance against them as a true measure of its performance. (Paragraph 23)

Recommendation 10

Next time the Secretary of State comes before us to discuss her Department’s overall performance, we do not expect her to have to rely on complaints about the nature of the indicators which have been set in order to explain apparently poor performance. We look forward to seeing not only improved overall performance by the Department, but also a performance framework which provides genuine accountability both to Parliament and to the Department’s many stakeholders for the whole range of its work. (Paragraph 25)

26. We note the points made in recommendations 8, 9 and 10 on performance against indicators in the future. The design of our CSR 07 PSAs and departmental strategic objectives (DSOs) reflects the experience of working with our SR04 PSAs.

EFFICIENCY TARGETS

Recommendation 11

We congratulate the Department on the achievement of its 2004 Spending Review efficiency targets. We will watch with interest to see whether it is capable of achieving the further demanding targets which have been set for it in the 2007 Comprehensive Spending Review period, particularly in central administration. (Paragraph 34)

27. The Department welcomes the Committee's comments on achieving its 2004 Spending Review efficiency targets. The Department continues to seek efficiencies wherever possible. The Department agrees that the 2007 Comprehensive Spending Review efficiency targets are demanding, and we are working hard to meet these in difficult economic conditions and in a challenging housing market. We will report on progress in the forthcoming 2009 Annual Report.

Strengthening Capacity

Recommendation 3

We discuss in more detail below some examples of areas of policy which show clear signs of having fallen victim to the consequences not only of the Department's weaknesses in its ability to influence its strategic partners, but also of failing to base policy consistently on the evidence available. (Paragraph 12)

28. We do not consider this a fair criticism of the Department, or of progress on the policies in question. As is set out more fully below, each policy is not only based on the available evidence but has sought to improve the evidence base and to apply any new information. Similarly, stakeholder engagement has been a key aspect in each case – and while, as we have previously discussed with the Committee, our initial stakeholder engagement could have been stronger in certain areas (for example, HIPs), our most recent departmental stakeholder survey (December 2008) showed overall improvement and we are working to make our performance stronger and more consistent.

ECO-TOWNS

Recommendation 12

The eco-towns policy is clearly in some difficulty. Only one site has been fully approved, and that site offers fewer than the original minimum 5,000 new homes required under the scheme. The ambition described in the Annual Report of a total of “up to 100,000 homes” looks highly unlikely to be achieved: the eco-town programme, even if successful, will make no huge contribution to the very significant problem of housing supply which is, rightly, one of the Department's top priorities. (Paragraph 38)

Recommendation 13

Like HIPs, which we consider further below, this policy appears to be one of the victims of the Department's weaknesses in engaging and enthusing its delivery partners. The Department's Annual Report claims that “Our partners in the public, private and voluntary sectors think the Department is getting better at involving them in the development of policy and in engaging with them when we announce new or changed

policies.” Those involved with the eco-towns policy may find this difficult to believe. Putting this policy back on track to deliver the Prime Minister’s early claims for it will be a difficult task and a severe test of the Department’s progress in a crucial aspect of improving its performance. (Paragraph 39)

29. The eco-towns policy is not, and never has been, simply about contributing to housing numbers but about pushing the boundaries on building design and development in order to tackle the wider challenge of climate change. The policy reflects our long-term commitment to social and affordable housing and innovation and excellence in design that will serve as an example both in the UK and abroad.

30. While the Sustainability Appraisal (SA) which accompanies the draft Planning Policy Statement (PPS) identified only one location in the top ‘A’ category it also showed that most of the sites being considered had the potential to be suitable if they are developed in the right way. It is to be expected that there are still issues to work through at this early stage. The SA is just one part of the assessment process. As Margaret Beckett made clear in her evidence to the Committee no decisions have been taken yet on those locations with potential to be an eco-town. Decisions will be informed by our consultation and further assessment work, and individual schemes will then need to submit planning applications which will be for local authorities to determine in the usual way on the merits of worked-up proposals.

31. Prospective eco-towns will have to meet the UK's toughest ever green standards for new development. We recognise that in the current situation this is more challenging but this is a long term policy, with a phased approach. Our aim is to see the first phase of a number of exemplar projects starting in the next couple of years and up to ten eco-towns under development by 2020. We have a good number of committed developers wanting to work with us on this. Of the locations currently being considered, proposals range in size from 5,000 to 15,000 homes - providing a significant number of additional housing units, a minimum of 30 per cent of which will be affordable. Margaret Beckett has made clear that our priority in selecting schemes is quality not quantity - only those proposals which can demonstrate that they have the potential to meet the high standards set will be short-listed.

32. We have a strong record of engaging and enthusing our delivery partners in taking the eco-towns policy forward. There is a pro-coalition of over 20 key organisations, including the Chartered Institute of Housing, Shelter, National Housing Federation, Waterwise, TUC, TCPA and the Energy Centre for Sustainable Communities, which has set out its broad support for the principle of eco-towns and the benefits that they can bring. Our work with the TCPA has brought together key stakeholders in helping to develop a series of worksheets to support those taking eco-towns forward. Since the summer we have undertaken a comprehensive programme of engagement through roadshows, public consultation, online digital activity and stakeholder events.

33. While the timetable for taking the policy forward has been delayed a little in light of legal challenge (which the High Court recently quashed) and the time taken to work through the high number of responses received as part of the first stage of consultation the Government remains committed to the programme. We plan to publish a final Planning Policy Statement with a short-list of locations with the potential to be an eco-town later this year and are working with our partners to prepare for the supporting delivery phase. This will not be the end of the programme as the PPS will set the criteria for future proposals to come forward. We are also looking separately at opportunities for further eco-development, working with partners across the country.

DECENT HOMES

Recommendation 14

We express once again our commendation of the Department for what it has achieved through the Decent Homes programme, and encourage Ministers to ensure that arrangements are put in place in a timely fashion to ensure that those achievements can be built on. There must be no return to the underinvestment which made this massive programme necessary. (Paragraph 42)

34. We welcome again the Select Committee's positive comments regarding the Decent Homes programme. We recognise that this has been achieved through the excellent cooperation of local authorities and housing associations and the substantial investment supported by Government.

35. The Committee is aware that the Department considers that it is equally important that once homes have been made decent they can be sustained in this condition. That is why we are undertaking a Review of Council Housing Finance with the aim of establishing a sustainable, affordable long term system for financing council housing which is consistent with wider housing policy.

36. The review is expected to report to Ministers before the summer and we are committed to a formal consultation. We expect the outcome to inform the next spending review.

Recommendation 15

We acknowledge the difficulty of attempting to ensure that two entirely different sets of funding streams deliver fair results for people in apparently similar circumstances. We cannot, however, accept that the problem is insurmountable. We invite the Department to look at ways in which some of the most vulnerable people with old and inefficient heating systems who are not eligible for a Warm Front grant can be given the same access to decent heating as their neighbours in private sector housing. (Paragraph 43)

37. It has to be recognised that tenants in social sector homes are more likely to be living in an energy efficient home than those living in the private sector. Since 2001 there has been a 36 per cent reduction in the number of social sector homes failing on the thermal comfort criterion. The social sector has an average SAP rating of 58, compared to only 48 in the private sector.

38. The social sector has improved more than the private sector since 1996, rising 11 points up the index. The private sector has risen only seven points over the same period. In the social sector the number of dwellings with a SAP rating of 30 or less has been substantially reduced since 1996, from over 14 per cent of the stock to less than 4 per cent in 2007.

39. The decent homes programme has already resulted in an estimated average reduction in tenant's fuel bills of £152 a year (in 2008 prices) between 1996 and 2006.

40. However we recognise that there is still a need to do more and the Government's Heat and Energy Saving Strategy committed that it will need to lead the way in the energy efficiency process both through its own actions and by ensuring the social stock leads the way. We are considering how we can ensure this happens.

Recommendation 16

We recognise the potential that exists for the Olympics to contribute to CLG's policy objectives, by "delivering legacy liveability, housing and employment benefits in one of the most deprived parts of the country"; and we are reassured by the Government's confirmation that no ALMO should have had to reduce its planned total spend as a result of the transfer to the Olympics. On the other hand, it is of concern that the ALMO programme has been subject to slippage, and that it continues to be so: as the NAO reports, 17 local authorities have yet to agree a revised deadline for the achievement of the Decent Homes standard as their ALMO is yet to draw down the funding. As noted above, we expect to return to the subject of ALMOs and their contribution to the Decent Homes programme later this year, and we will be considering carefully the implications of the Government's expenditure decisions on the outcome of that programme. (Paragraph 46)

41. We note the Committee's continuing interest in ALMOs. Day to day responsibility for the management of ALMO programme transferred to the Homes and Communities Agency (HCA) on 1 December 2008. We have put in place a working protocol between the Department and the agency to ensure clarity over responsibilities, and that the channels of communication are clear.

42. There are currently 16 ALMOs who have yet to gain 2* at Audit Commission inspection. All are currently scheduled for inspection within 15 months. ALMOs can receive considerable support prior to and post inspection including: National Federation of ALMOs mentor Support Network, bought in Audit Commission advice and support or external consultancy

support, and performance improvement funding. The HCA are available to provide advice to ALMOs who are seeking to deliver a performance improvement programme

43. The Government remains committed to the ALMO programme and considers it an important vehicle for delivering improvements to housing management services, delivery of Decent Homes investment programme, and the engagement of tenants and their communities in the future of their housing and neighbourhoods.

HOME INFORMATION PACKS

Recommendation 17

In our last Report, we said that HIPs were an example of CLG's inability to build the relationships it needs if it is to succeed in taking partners with it across the whole range of policy. This point stands again, one year on. The results of the mishandling of the introduction of the HIPs policy are now evident, in that CLG is still struggling to perfect the scheme at a time when the housing market needs more robust and effective initiatives. We hope that the Department's acknowledgement in its Annual Report that the policy is not yet delivering its full benefit reflects a renewed effort on its part to work effectively with its partners to ensure that it does so, and welcome the indications from the Department that that is the case. (Paragraph 49)

44. Following the final roll-out of HIPs on 14 December 2007, activity has focussed on finalising implementation of HIPs to provide greater certainty and clarity about their operation and to fully realise the potential they offer to consumers. We have continued to strengthen stakeholder engagement through the Stakeholder Panel chaired by the Minister for Housing and Planning, which has considered how to improve the home buying and selling process for consumers, including making HIPs more effective.

45. We worked closely with industry and consumer representatives in the development of the proposals announced on 8 December 2008 to improve the quality and consumer content of the HIP, in particular, the simplification of requirements for leasehold properties and the introduction of the new Property Information Questionnaire which followed a public consultation exercise during the summer 2008¹. The progress made by the Department in seeking input from stakeholders was recognised in responses to the announcement – including the responses received from RICS.

46. We have continued this approach by involving stakeholders in our plans to raise awareness of the changes to HIPs introduced from 6 April, seeking their input on the key information and advice to provide industry and consumers to help smooth introduction of the new arrangements.

¹ Improving Consumer Content of HIPs – A summary of responses
<http://www.communities.gov.uk/publications/housing/improvingconsumerinfomation>

47. Industry and consumer representatives are also well represented on the two working groups we have established to look at how to ensure consumers receive appropriate information about a property's condition and make property searches simpler and easier to understand.

FLOODING

Recommendation 18

We are pleased to note that CLG has now “developed and implemented [an emergency] recovery plan which sets out its responsibilities and how it will work across Government, and the wider public and private sectors to support recovering communities, in cases where national co-ordination is required.” We commend the Department on its work following the 2007 floods: the success of further such work will, as it did then, depend crucially, once again, on the ability of the Department to lead and enthuse its partners. (Paragraph 52)

48. We welcome the Committee's commendation of our work on the recovery from the 2007 floods. Our Emergency Recovery Plan builds upon the lessons from that work and aims to preserve the best practice that was developed. We will keep the Plan under review and update it as lessons arise from future incidents and exercises.

Recommendation 19

We are pleased to see that the Government's formal response to the Pitt Review, which has now been published, has acknowledged “that it would be helpful to give local authorities greater certainty about the circumstances under which the Government will consider providing additional support.” (Paragraph 57)

Recommendation 20

The good sense of the Audit Commission's recommendations was later confirmed by the report of the Pitt Review. The Minister's somewhat ill considered and overhasty initial response to the Commission's recommendations may simply have reflected the perceived need for an instant riposte to any apparent criticism. It may also, however, reflect the weakness identified by successive Capability Reviews in the Department's willingness and ability to base its policies consistently on the evidence, rather than preconceptions. We are pleased that the right conclusion was eventually reached, and look forward to more considered responses in the future to useful contributions to the formulation and improvement of policy such as the Audit Commission's report. (Paragraph 58)

49. Government is currently consulting on the cross government arrangements for providing financial support for local authorities in recovering from exceptional emergencies, as part of the revision of *Emergency Response and*

Recovery. It is intended that the finalised guidance will be published in summer 2009.

50. The proposed guidance, currently out for consultation, takes into account the views of both the Audit Commission and the Pitt Review. The proposed arrangements will improve certainty for local authorities and at the same time rightly take account of departmental funding constraints. As Sir Michael Pitt recommended, the proposals ensure the onus is on local authorities themselves to continue to make their own arrangements for dealing with financial risk – with Government stepping in to support in exceptional circumstances.

51. The Bellwin scheme gives local authorities confidence to take immediate action to safeguard life and property or to prevent suffering or severe inconvenience to the public.

52. For longer term recovery issues, funding made available at either local or national level needs to be balanced against the requirements of existing programmes and other priorities for finite resources, at the time of an emergency. We expect local authorities to reprioritise their own budgets, as far as possible, and to use their reserves, if necessary. Every local authority is required to maintain reserves. One of the main purposes is to meet unexpected costs. In addition, those local authority assets which need to be restored very quickly are those which we would expect to be covered by insurance or reserves.

53. Local authorities will also have the certainty of knowing what costs will definitely not be covered by any recovery funding arrangements and thus can make their own risk based assessments on how they budget for contingencies.

54. Our response to the Audit Commission has been consistent and was not hasty. We still consider that the Commission's proposed approach to providing financial support for recovery was too restrictive and inflexible, that local authorities should be given the freedom to decide their local priorities for floods recovery spending and that councils have the responsibility to assess their own risk and put in place the right mix of insurance, self-insurance and reserves. Our proposed arrangements are consistent with these views.

FIRE AND RESCUE

Recommendation 21

We recommend that the Department build on the research which it has undertaken since our Report of last year and continue to encourage the Fire and Rescue Service to consider further means to counter the effect of traffic and improve response times. (Paragraph 62)

55. We will continue to work with the Service and stakeholders in order to identify how best to take forward the report's findings and to develop strategies for tackling the impact of increasing traffic on FRS response times.

As a first step we shall discuss the matter with the Practitioners' Forum in May 2009 with a view to their progressing things over the course of the year. We will send the Committee an update after this meeting.

Recommendation 22

Both [FiReControl and Firebuy] are clear examples of the Department's failure consistently to base policy making and delivery on the evidence. (Paragraph 66)

Recommendation 23

Both FiReControl and Firebuy would clearly have benefited from more rigorous analysis in the policy formation stage, especially from those with the sort of financial and economic expertise which the Department has now recruited. We welcome the steps which the Department has taken to address the gaps in its analytical capability, and look forward to seeing the fruits of those steps in far more robust and accurate policy formation in the future. (Paragraph 67)

56. We are pleased that the Committee recognises the steps we have taken to improve our analytical capability and enhance our ability to deliver. We agree that it is essential that we have the right mix of skills and expertise to implement these projects effectively and keep this under regular review. We do not agree however that the Firebuy or FiReControl projects have suffered from a lack of rigour in analysis at the policy formation stage.

57. The initial evidence for the FiReControl project was provided in an independent report by Mott MacDonald in 2000, *Future of Fire Service Control Rooms and Communications*. This report stated that maximum efficiency could be achieved by a reduction from the [then] 49 separate controls to nine regional control centres.

58. In the period after publication of the report, the significance of the threats that the Fire and Rescue Service may have to respond to in the future became even more apparent, with the terrorist attacks in the United States on 11 September, 2001, and the increasing regular impacts arising from climate change including increased flooding. In light of these circumstances, in 2003 Mott MacDonald issued an update to their original advice, *The Future of Fire Service Control Rooms in England and Wales*. The updated report concluded that to be in a better position to face the threats of the 21st century, the 'Government initiate a national strategy to reduce the number of fire and rescue service control rooms by means of Fire-Fire amalgamation to form regional controls which match the Government Offices of the Regions.'

59. While these reports provided the evidence base that was necessary to inform initial policy and decision making processes, they could not be expected to provide the level of detail that would be required as the project developed. Detailed evidence gathering and analysis has therefore continued

as the project has moved forward and has assisted with firming up our understanding of the full range of factors that will influence delivery.

60. To ensure that we continue to base policy making and delivery of service on a robust evidence base, we are continuing to work closely with all of our stakeholders, including the Fire and Rescue Authorities, the LGA, and CFOA.

61. In respect of Firebuy, this was set up in March 2006 by the ODPM as a national procurement body for the Fire and Rescue Service (FRS). One of its main objectives was to deliver efficiencies and improvements in FRS procurement. Its establishment followed a series of reports over a number of years calling for greater collaboration in Fire Service procurement. This included research commissioned by the Department from Cap Gemini, Ernst and Young and the Improvement and Development Agency, which concluded that fire specific procurement was best carried out nationally and that an appropriate body should be established to do this.

62. Efficiency savings for the FRS from the contracts set up by Firebuy were slow to develop. The focus in the first years of the organisation was on putting collaborative procurement arrangements in place. However, Firebuy is forecasting significantly higher savings for the FRS from the use of these contracts in 2008-09 and 2009-10.

63. The Department has recently reviewed the performance and remit of Firebuy with the aim of identifying actions to further improve the delivery of the organisation's programme. We are also looking closely at the changing circumstances within which the Fire and Rescue Service is operating and what this may mean for future national and collaborative procurement needs. We intend to publish a revised national procurement strategy for the FRS, taking account of this analysis and setting out future arrangements, in the summer.

EUROPEAN REGIONAL DEVELOPMENT FUND

Recommendation 24

[The financial corrections imposed by the European Commission on the UK as a result of the mismanagement of European Regional Development Fund monies represent] the loss to the ERDF programme of money which could have been used for development projects. The Department has had to write off a further £8m and make provisions to write off another £73m. Without these adjustments, the exchange rate gains that have arisen routinely on ERDF payments as the pound has continued to fall (and the fortuitous £61m accounting error) could have been used to bolster ERDF projects in the UK. (Paragraph 71)

Recommendation 25

[Provision in CLG's 2008 09 Winter Supplementary Estimate to pay for the financial corrections] amounts to a total of £22.3m of money which

Parliament had previously voted for important programmes such as the HCA and the Thames Gateway, both of which have a crucial role to play in the vital task of increasing housing supply, being moved away to pay for earlier incompetence on the part of the Department and its agents. (Paragraph 72)

Recommendation 26

These are unlikely to be the last such transfers from other programmes which will need to be made to cover the cost of disallowed ERDF grants. The Department's accounts for 2007–08 show a contingent liability relating to ERDF corrections of some £149m, some or all of which will hit the Department's budget in future years. In total, the Department's accounts suggested that its total loss could eventually be up to some £250m as a result of the mismanagement of European funds. (Paragraph 73)

Recommendation 27

The total value of the financial corrections imposed as a result of the mismanagement of these European funds is likely to represent a substantial sum. The Department will not be able to rely on exchange rate gains or “write-backs” from earlier accounting errors to cover any further losses. Indeed, if the pound were to strengthen in future, the department could make exchange rate losses on administering ERDF payments, which it would have to cover from within its overall budget. We trust that the ongoing improvements which the Department has made in its relationships with its partners, and the strengthening of its capacity to ensure effective delivery of outcomes, will ensure that no more badly-needed funding disappears as a result of the incompetence and mismanagement which characterised these programmes. (Paragraph 75)

64. European Regional Development Funds (ERDF) have brought real benefits to England's communities. In respect of the two rounds – 1997-99 and 2000-06, around 9000 projects have received grant with a value of €5.182bn. Projects are focused on regeneration ranging from boosting and safeguarding jobs, to tourism and turning around run down areas. The regions are very proud of many of the projects. Examples include the Millennium Bridge, bringing the Metro to Sunderland and the Sage, Gateshead together with the rebuilding of central Manchester after the bombing in 1996. These involved a number of stakeholders working together including the European Commission (EC), the projects themselves and the Government Offices.

65. ERDF programme regulations require the EC to audit a sample of the programmes in all member states. In England, two ERDF programmes were selected in respect of the 1997-99 programmes: one each in the NE and the NW. We have recently received from the EC its decisions on these audits. The financial correction for the North East Region is €8.5m and for the North West Region it is €18m. These corrections are substantially reduced from the

Commission's original findings, proposing an overall correction of €137m, as a result of the further work we have done and evidence we have provided to the Commission. In no case has there been any question of impropriety or fraud. These corrections should also be considered in the context of over €1300 million of corrections made by the EC in other Member States for the programme period to the end of 1999, including for example Greece accounted for €312 million, Spain €182 million and Italy €431 million.

66. The Department budgeted for the financial corrections in the Department's accounts. The amounts were covered by a mixture of slippage, unallocated budgets and windfall receipts on a number of programmes, without loss of planned outputs. Funding reported as being moved from the HCA was largely restored later in the year from a range of other savings across the Department. The Agency was successfully launched on 1 December 2008 - four months ahead of schedule. £2m was taken from the Thames Gateway programme but had no impact on outputs. Thames Gateway made savings in areas such as research and marketing and in provision that had been made for UDC planning appeals but which were not in the event required. These funds were therefore available to be used to meet other Departmental obligations.

67. To ensure effective delivery of future outcomes from ERDF programmes, we have introduced new and robust management and control systems. The Department has recognised ERDF as a key priority and has introduced a formal governance structure which is overseen by a Board chaired at Director General level.

68. For Government Offices:

- the Government Offices have tightened up their accounting procedures
- a programme of financial inspections visits has been carried out in all 2000-2006 ERDF programmes operating in England
- additional resources have been provided to Government Offices to help complete the management of the 2000-06 programmes

69. For Regional Development Agencies (RDA), who operate the 2007-13 Programmes:

- Parliament has made a Statutory Instrument for each RDA, which sets out clearly their powers and duties.
- The Department has published Schedules of Managing Authority Functions which make clear what functions are delegated to RDAs and which to Communities and Local Government as Managing Authority. There is similar clarity for the separate roles of Audit and Certifying Authorities which are also provided for in the Department.
- The Department and RDAs have written a comprehensive ERDF User Manual, which sets out detailed guidance on ERDF business processes including eligibility and irregularities.
- The Department has put in place a fully electronic Management and Control Information System to make the calculation and payment of ERDF

grant claims (and other functions) easier and consistent across the RDA network and which ensures a high degree of compliance with programme regulations.

- Ministers laid a written ministerial statement on 30 March 2009 which set out an increase of £144 million in the 2007-13 programmes. This reflects the impact of changes in the exchange rate on the sterling value of the funds. This is money which will be available to regions to help minimise the impact of the recession and it is this round of programmes that we now need to focus on – not closed programmes. The full text is set out at Annex A.

70. We continue to work openly with the European Commission, presenting extensive evidence to respond to the audit findings and the Commission has welcomed our action to implement stronger programme and financial management systems. Our programmes are delivering successful projects on the ground and are creating jobs and opportunities for small businesses across the UK. ERDF remains an important element of funding for projects across the country and it is playing an even more crucial role in the current economic circumstances.

30 Mar 2009 : Column 37WS

COMMUNITIES AND LOCAL GOVERNMENT

Regeneration

The Minister for Local Government (John Healey): I am today announcing the revaluation of the 2007-13 programme of projects eligible for assistance through the European regional development fund. This is a prudent step to reflect the impact of changes in the exchange rate on the sterling value of the funds. With immediate effect, I can confirm there will be an increase of £144 million in the value of these programmes. This is money that is available to increase regional competitiveness, create and safeguard jobs, and stimulate economic growth. This will help regions minimise the impact of the recession.

I am also able to confirm, that because of the challenging economic circumstances, the European Commission has increased the advance payment due to the regional development agencies. This now totals £195 million (7.5 per cent. of the total programme). The extra £65 million of this will be paid to regional development agencies in late spring.

The actions I have described here will provide further help to these programmes to target worklessness, support small and medium enterprises and fund innovative, high-tech business investment and I have asked RDAs to revisit their programmes to ensure these reflect the Government's priorities of creating and safeguarding jobs.

Late last year the European Commission offered member states the possibility of extending the 2000-06 programmes for a further six months until June 2009. The offer did not mean that there was any new money being offered by the EC. It was simply an offer of more time for those projects that had slipped against the previously planned schedule or those that had capacity to continue spending to produce additional outputs. There was little additional flexibility and it would have been unlikely that any new projects could be commissioned that met the requirements of the programmes and delivered in the time frame available. The European Commission recently offered us the opportunity to review this decision. We have done so carefully but there remains little advantage in England accepting this. Instead, we now want to ensure all efforts possible are made to help future projects and programmes maximise the substantially increased resources that are available in the new programme round (for the 2007-13 programme) which is just getting under way. Through these programmes a total of €3.2 billion (approximately £2.8 billion at today's exchange rate) will be invested. Part of the requirement for the EC funding is that match funding must be secured for the ERDF grant. Match may come from a variety of sources, typically from RDAs, local authorities, other public bodies and private sector investors. This is tough in the current economic circumstances and we are aware of the challenges programme partners face in making the necessary investments quickly enough to have an impact.

I am therefore today writing to all the chairs of regional development agencies (who administer the 2007-13 programme round in England) to undertake a rapid joint stocktake of the match funding position to identify gaps and potential sources and to share best practice.

30 Mar 2009 : Column 38WS

In addition, my officials are working collaboratively with the RDAs to help establish high spending programmes such as Joint European Resources for Micro to Medium Enterprises (JEREMIE) and Joint European Support for Sustainable Investment in City Areas (JESSICA) which are new financing schemes to support small and medium enterprises and help secure regeneration benefits in less well performing areas. We are working to overcome the barriers to these models and to technical issues relating to venture capital funds. These have the potential to create a sustainable investment legacy which over time will decrease reliance on European grants.

I am also taking the opportunity in this statement to report decisions by the European Commission which has now confirmed financial corrections for the 1997-99 programme period. These relate to the north-east and north-west regions. These programmes together are valued at £358 million and have been of substantial benefit to the regions. They have assisted more than 1,700 regeneration projects helping to boost employment, skills and business in disadvantaged areas. The financial correction for the north-east region is €8,435,883.80 and for the north-west is €18,035,904.26. As the commission recognises we have worked hard to answer their concerns and there is no question of fraud or misuse of funds. These corrections are substantially reduced from the commission's original findings as a result of the challenge we have offered in documentation and in strong representations at oral hearings.

We have made provision in our departmental accounts for these corrections. There will therefore be no impact on other priority areas of work, and I can also confirm that no local project will lose out or be asked to contribute given the length of time which has elapsed since projects started.



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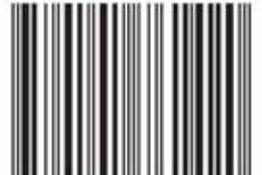
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