Department for
Communities and
Local Government

# Department for Communities and Local Government

## Annual Report and Accounts 2015-16

**HC 324**

# Department for Communities and Local Government

## Annual Report and Accounts 2015-16

**(For the year ended 31 March 2016)**

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HC 324

*This is part of a series of departmental publications which, along with the Main Estimates 2016-17 and the document Public Expenditure: Statistical Analyses 2015, present the government's outturn for 2015-16 and planned expenditure for 2016-17.*



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# PERFORMANCE REPORT

## Overview

### 1 Forewords to the Annual Report and Accounts 2015-16

#### Foreword from the Secretary of State

This past year has been an exciting and busy time: building more homes, helping people become home owners and devolution to local communities aren't just priorities for this department, but for the whole Government.

Real progress is being made. Planning permissions are up, house building is up and we've helped tens of thousands of first time buyers. The Housing and Planning Act, which was passed this year, will enable further progress towards our twin objectives of a million more homes and a million more home owners by 2020. Individual measures include 200,000 new Starter Homes and the release of government-owned land for house building. We have also reached a historic agreement with housing associations to extend the right to buy to their tenants – and to use the proceeds to build new affordable homes.

A second legislative landmark was the Cities and Local Government Devolution Act – which takes the decentralisation of power and resources further than it's ever gone before. We've now agreed ten devolution deals across England – together encompassing a third of the population. Billions of pounds of investment in housing, infrastructure, skills and transport are now in the hands of local people, not Whitehall. Deal by deal, the vision of the Northern Powerhouse is becoming reality; and, by forming combined authorities led by elected mayors, other parts of the country are taking charge of their future growth and prosperity.

A further vital reform was the agreement of a ground-breaking financial settlement for local government. If they can demonstrate efficiency savings, councils will get a guaranteed four-year budget. Plans for the local retention of business rates are also well underway. By 2020 our aim is to create a financially independent system of local government – an astonishing transformation for a country that was, until recently, one of the most centralised democracies in the world.

I'm proud of that we've achieved over the last twelve months and I look forward to even more progress over the coming year.

**Rt Hon Greg Clark MP**

**Secretary of State for Communities and Local Government**

## Foreword from the Permanent Secretary

This year has been strong year for the Department, as we responded to the new Government in May 2015 and put in place plans to deliver our new priorities.

We were given a clear mandate to deliver those priorities in our Spending Review settlement in November 2015 and we have led steps to increase the efficiency and effectiveness of the Department, and rise to the challenge of a 20% reduction in our admin pay budget over the Parliament. A comprehensive business planning and organisational design process has ensured we are focusing our resources on delivering our priorities.

We have focussed on how we design, deliver and manage our programmes. We established our departmental Implementation Units, embedding a new delivery planning framework with clear metrics and reporting. We have also improved our approach to risk, to ensure focus on the strategic challenges faced by the Department.

This report demonstrates the steps we've taken in delivering Ministers' objectives in a smarter, stronger and more streamlined way, in line with our new Vision and People Plan. We have agreed deals with local areas and with housing associations; delivered two Acts of Parliament; led work across Government to secure commitment to release public sector land for 160,000 homes; helped more than 25,000 families buy their own home through the Help to Buy: Equity Loan scheme (to December 2015) and launched the new Troubled Families programme, working with local authorities to exceed the target set of engaging 100,000 families in the first year.

**Melanie Dawes CB**
**Permanent Secretary**
**Department for Communities and Local Government**

## Lead Non-Executive Director's Report

I was delighted to join the Department as Lead Non-Executive Director on 1 January 2016, replacing Sara Weller after five years in the role. I have joined a strong team that is very clear on its priorities for delivery and I am looking forward to the challenges ahead.

*Board meetings and sub-committees*

The changes in Board membership, with an almost entirely new Ministerial team and a new Permanent Secretary just four weeks before this reporting year, naturally created some discontinuity but the Board still met three times and had some useful and robust discussions. It was complemented by the Department's Executives and Non-Executives meeting a further seven times as an Interim Board. Housing featured prominently at each Board meeting but other issues discussed included devolution and local growth, the Department's Change Programme and governance and performance reporting. The two Board sub-committees (Nominations and Governance and Audit and Risk Assurance) met twice and five times respectively. To support the Nominations and Governance Committee a new sub-committee was created in July 2015 -the Senior Pay, Performance and Talent Committee met eight times and was attended by the Executive Team and one Non-Executive Director. The Audit and Risk Assurance Committee core membership grew this year with two new independent members. A sub-group was created to ensure discussions of a more strategic nature could take place, allowing more time for the detailed delivery discussions at the Audit Committee.

*Departmental involvement of Non-Executive Directors*

Beyond formal meetings, Non-Executives contributed their expertise and experiences to a range of areas, including Commercial Capability Reviews, senior appointments, the Departmental Change Programme and our housing policies.

To maintain closer engagement of Non-Executive Directors with the Department's key Arm's Length Bodies, as recommended in the April 2014 Board Effectiveness Evaluation, regular meetings between Non-Executive Directors at the Department and the Homes and Communities Agency have continued. Sara Weller, whilst Lead NED, was also the Chair of the Board at the Planning Inspectorate, ensuring a close engagement between the two.

*Board Effectiveness Evaluation*

The 2014-15 Board Effectiveness Evaluation recommended the continuing engagement with the Department's ALBs and Non-Executive Director involvement in key programmes where an external perspective or broad business and commercial skills could add value. As is clear above, these have been delivered throughout the year and will continue to be a key focus for the Non-Executive Directors.

The Evaluation also recommended the continued use of external speakers at Board meetings and a continued focus on sharp and factual papers for discussion at meetings. Whilst no external speakers attended the three Board meetings held this is something that we will seek to re-establish in the forthcoming year.

**Andy Street**

**Lead Non-Executive Director**

# 2 About the Department for Communities and Local Government

2.1 The Department for Communities and Local Government has a big role to play in delivering the Government's commitments. The Department adapted quickly to the new Government in May 2015 and agreed ambitious plans against our four ministerial priorities:

- **To drive up housing supply:** the Government's aim is to deliver one million new homes by 2020, supported by a doubled housing budget from the Spending Review 2015. In 2015-16 the Department took steps to bring more land forward for development, streamline the planning system and provide support to increase the rate that permissions and sites are built at.
- **To increase home ownership:** The Government's aim is to double the number of first time buyers and help more people own their own home. In 2015-16 the Department took steps to build more affordable homes, create new products to help people save for a deposit and buy new homes, and support council or housing association tenants to buy their home.
- **To devolve powers and budgets to boost local growth in England:** The Department's policies aim to empower local areas through the devolution of powers and budgets from Whitehall, drive collaboration between the public and private sector on local growth decisions, and close the decades-old economic gap between North and South, creating a balanced, stronger economy.
- **To support strong communities with excellent public services:** Communities deserve excellent and integrated public services that support them to achieve and create places where people feel they belong. In 2015-16 the Department provided greater certainty over funding, worked to join up the approach between care delivered in hospitals and the care people receive in their own home, supported the vulnerable in their communities and engaged with our hardest to reach families with personalised support, tailored to their needs.

2.2 This performance report sets out the progress we have made in 2015-16 to deliver these priorities. We have also reported on the way we have managed the Department – how we have organised our work, developed our people, and monitored our performance. As part of our focus on delivering Ministers' priorities effectively and efficiently, we need to make a 20% reduction in our admin pay budget. We are responding to this challenge head on, making changes that enable us to be smarter and more streamlined in the way we work.

2.3 During 2015-16 the Department consisted of the core Department, one Executive Agency and ten other Arms Length Bodies (ALBs). The Accountability Report on page 29 provides an introduction to Ministers' areas of responsibility, the Department's Non-Executive Directors and the Executive Team. It also includes the Governance Statement which provides a summary of the strategic challenges and risks faced by the Department and how these are being addressed. These include risks to programme delivery (both external and internal) across our portfolio of responsibilities, and corporate risks around balancing the books and legal challenge. Our programme aims also depend upon factors that are not entirely within the Department's control such as the state of the economy, the actions of private sector developers and the engagement and support of local politicians. The Department acknowledges, manages and mitigates against risks to deliver these policy targets.

# 3 Performance Summary: Key Achievements in 2015-16

On **driving up housing supply**, the Department:

- Introduced the Housing and Planning Act with new measures to further invigorate the housing market.
- Achieved a historic agreement with housing associations to extend the Right to Buy to 1.3 million more families, with a new home built for each one sold nationally.
- Led work across Government to secure commitment to release land for 160,000 homes over the Parliament and committed to release land held by the Department and the Homes and Communities Agency (HCA) for 36,000 homes.
- Committed to £1 billion loan funding to support the construction of new homes.

On **increasing home ownership**, the Department:

- Committed to delivering 200,000 Starter Homes at a 20% discount for first time buyers.
- Helped more than 25,000 families buy their own home through the Help to Buy: Equity Loan scheme between April and December 2015.
- Launched London Help to Buy with the potential to help over 10,000 households purchase a home in the next five years.
- Helped over 8,900 households buy their home through the Right to Buy scheme between April 2015 and December 2015.
- Extended the Right to Buy to 1.3 million more families living in Housing Association homes.

On **devolving powers and budgets to boost local growth in England**, the Department:

- Delivered the Cities and Local Government Devolution Act, enabling Government to devolve a range of powers and budgets currently held by Whitehall to local areas.
- Agreed devolution deals with ten areas across England, covering a third of the population, which devolve significant powers, give control over billions of pounds in investment and strengthen local ability to bring forward land to deliver housing.
- Committed to 24 new and eight extended Enterprise Zones across the country including most recently three announced in the Budget 2016: Brierley Hill in Dudley; Cornwall; and Loughborough and Leicester.
- Agreed historic Northern Powerhouse devolution deals giving the North access to billions of pounds of new funding in Liverpool, Manchester, Sheffield, Tees Valley and the North East. Mayors in these areas will cover 54% of the population of the North, backed by over £4 billion of new funding from central government.

On **supporting strong communities with excellent public services**, the Department:

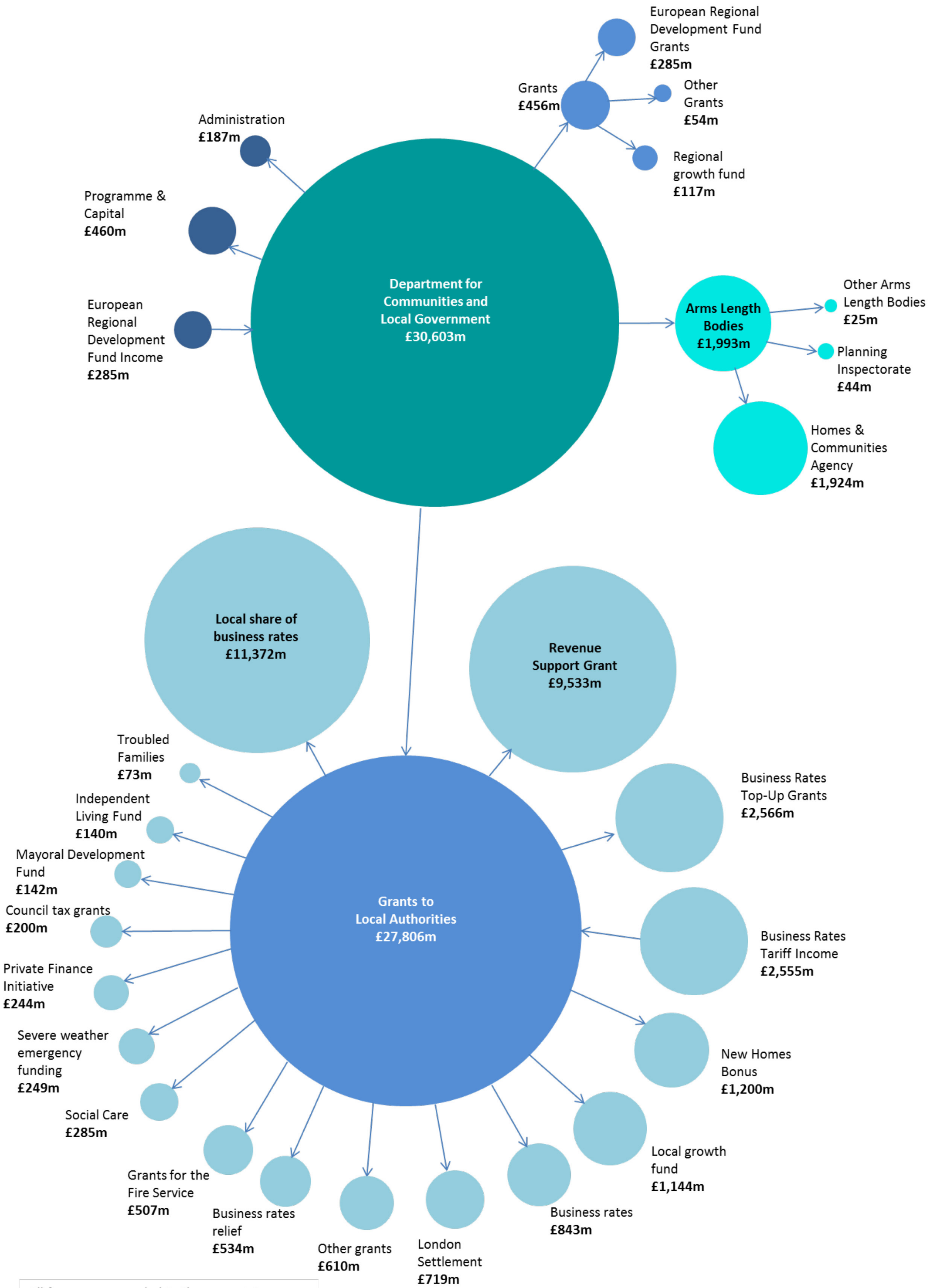
- Worked with the Department of Health, following the establishment of the Better Care Fund on 1 April 2015, to help drive the integration of health and social care services. The size of the overall fund grew to a total of £5.3 billion as local authorities and clinical commissioning groups chose to put an extra £1.5 billion of funding into local pooled budgets, additional to the original £3.8 billion fund.

- Launched the new Troubled Families Programme, with local authorities and their partner agencies to engage 100,000 families with multiple problems and made more than 8,000 results payments in respect of such families where significant and sustained progress has been achieved or an adult member has moved into continuous employment.

- Announced in December 2015 that all local authorities will be offered a guaranteed 4-year budget as long as they can demonstrate efficiency savings and publish an efficiency plan. This will enable them to plan with greater certainty over the course of this Parliament.

## Departmental Expenditure Profile 2015-16

3.1 The diagram below represents how the Departmental 2015-16 budget of £30,603m was allocated by expenditure type. For long term expenditure trends, the core tables on page 72 show annual Departmental expenditure since 2011-12 broken down by expenditure type. They also show the Department's planned expenditure through to 2019-20.




All figures are rounded to the nearest £m
Source: DCLG Supplementary Estimate 2015-16

# Performance Analysis

## 4 Performance Reporting

4.1 The Department for Communities and Local Government has a big role to play in delivering the Government's commitments. The Department adapted quickly to the new Government in May 2015 and agreed ambitious plans against our four ministerial priorities:

- To drive up housing supply;
- To increase home ownership;
- To devolve powers and budgets to boost local growth in England; and
- To support strong communities with excellent public services.

4.2 The Department's Single Departmental Plan sets out these priorities, the key objectives underpinning them and the metrics by which they will be measured. Our Single Departmental Plan is available on GOV.UK[1]. This report takes the same approach, setting out the progress we have made in 2015-16 to deliver these priorities.

### Driving up housing supply

4.3 The Government's aim is to deliver one million new homes by 2020 and our measures seek to create the conditions to achieve it, supported by a doubled housing budget from the Spending Review 2015. In 2015-16 the Department took steps to bring more land forward for development, streamline the planning system and provide support to increase the rate that permissions and sites are built out.

*Making better use of public assets and brownfield land will increase the supply of land on which homes can be built*

4.4 The Department worked across Government to secure commitments to release **public sector land** for 160,000 homes over the Parliament, building on the release of land for over 100,000 homes from 2010-15. Within that headline commitment, the Department, with the Homes and Communities Agency (HCA), committed to sites for 36,000 homes and we have now identified specific sites and begun to release them[2].

4.5 The Housing and Planning Act (which achieved Royal Assent on 12 May 2016) will require local authorities to create **registers of brownfield and public sector land** suitable for development, to encourage more sites to be brought forward.

4.6 **The London and Manchester Land Commissions** were established to co-ordinate and accelerate the release of public brownfield land for homes and will create registers of all public sector land.

*Streamlining the planning system will also increase the land available for development, while also facilitating more effective decision making on planning applications*

4.7 To help unblock development and increase housing supply, the Government **streamlined the planning application process** by:

- introducing the deemed discharge to ensure that local authorities clear planning conditions on time;
- requiring local authorities to provide specific justification for each 'pre-start' planning condition they use; and
- changing consultation requirements on planning applications to improve engagement with statutory agencies.

[1] https://www.gov.uk/government/publications/dclg-single-departmental-plan-2015-to-2020/single-departmental-plan-2015-to-2020
[2] https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents

4.8 **Permitted development rights** continue to play an important role in delivering our housing ambitions. From April to December 2015 there were 2,607 applications for the change of use from office to residential, with 2,058 permissions. In addition there have been 1,580 permissions for the change of use from agricultural buildings, providing new homes to support our rural communities. The rights to allow households to build larger extensions are allowing homes to grow to meet families changing needs, with 19,173 permissions over the same period. The temporary permitted development right which was providing much needed new homes particularly in London and the South East was made permanent on 6 April 2016.

4.9 In July 2015 the Government announced that it will take action to accelerate the preparation and adoption of **local plans** and if necessary intervene to arrange for local plans to be written in consultation with local people to ensure plans are in place by 2017. By summer recess a deadline will be set for local authorities to put local plans in place. Details of measures to encourage the production of Local Plans will be announced in 2016.

4.10 The March 2016 Budget announced the Government's intention to move to an approach where local authorities use their **local plans** to signal their development strategy from the outset and to minimise delays caused by planning conditions[3].

4.11 The Department has taken forward Phase 1 of the **compulsory purchase reform** programme by publishing updated and revised guidance on 29 October 2015[4] with the rest of the programme included in the Housing and Planning Act. Phase 2 proposals were published for consultation on 21 March 2016[5].

*Delivering the social and physical infrastructure for development will get sites going*

4.12 The Spending Review 2015 announced £2 billion in loans to invest in the infrastructure needed for major housing development[6]. This builds on the success of our existing **Large Sites Programme** which has so far unlocked or accelerated over 100,000 homes through loan funding, with over 13,000 of these delivered in 2015-16.

4.13 The **Ebbsfleet Development Corporation** was established in April 2015 and at the Spending Review 2015 secured funding of £310 million for infrastructure to kick start building of up to 11,000 homes by 2025-26[6].

4.14 Work in 2015-16 resulted in regulations which came in to force in May 2016 to ensure new buildings and buildings undergoing major renovation work are equipped to receive **superfast broadband**[7].

*Supporting delivery will then help to get homes built*

4.15 The Spending Review 2015 reaffirmed the role of the Department in increasing housing supply through loan funding. £1 billion loan funding was announced to support the construction of new homes, with particular support for **small and medium builders, custom builders, and the use of new innovative techniques**[6].

4.16 In January 2016 it was announced that £1.2 billion of funding for Starter Homes would be made available to prepare more **brownfield sites** including £8 million this year for local authorities to support Starter Homes on 27 underused or vacant brownfield sites across England. The Homes and Communities Agency is using the funding to acquire further suitable brownfield sites[8].

4.17 Work throughout this year resulted in October's agreement with housing associations on the **Voluntary Right to Buy** scheme, extending the right to 1.3 million more families. Under the scheme, housing associations will build a new home for every one sold nationally in return for full compensation for the cost of the discount to tenants[9]. This builds on the re-invigorated scheme which has seen 4,594 homes already started on site or acquired since April 2012.

[3] https://www.gov.uk/government/publications/budget-2016-documents/budget-2016
[4] https://www.gov.uk/government/publications/compulsory-purchase-process-and-the-crichel-down-rules-guidance
[5] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/509062/Further_reform_of_the_compulsory_purchase_system_-_consultation.pdf
[6] https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents
[7] https://www.gov.uk/government/publications/building-amendment-regulations-2016
[8] https://www.gov.uk/government/news/pm-the-government-will-directly-build-affordable-homes
[9] https://www.gov.uk/government/news/historic-agreement-will-extend-right-to-buy-to-13-million-more-tenants

4.18 The **Affordable Housing Guarantee Scheme** helped to deliver more affordable housing by making debt cheaper for affordable housing providers. Between April 2015 and March 2016 the Department approved 17 housing associations to borrow a total of £630 million of guaranteed debt and support the delivery of over 6,300 additional affordable homes. The Affordable and Private Rented Sector Housing guarantee schemes were overall winners in the Commercial Category of the Civil Service Awards 2015.

4.19 In December 2015 the Department announced support for two further **garden towns**[10] and is providing capacity funding of over £4 million to support the development of new garden towns and communities in Bicester, Basingstoke, Didcot, North Essex and North Northamptonshire. Together these projects have the capacity to deliver 90,000 new homes, of which up to 1,000 have already started at Bicester and North Northamptonshire.

4.20 In July 2015 the Department, with Lloyds Banking Group, launched the **£100 million Housing Growth Partnership** to help small builders invest in new projects and develop their businesses[11].

[10] https://www.gov.uk/government/news/new-garden-towns-to-create-thousands-of-new-homes
[11] https://www.gov.uk/government/news/100-million-boost-for-small-housebuilders

## DRIVING UP HOUSING SUPPLY: Measuring progress

### Number of published and adopted local plans in England[12]

**284** published local plans (84% of local authorities)

**237** adopted local plans (70% of local authorities)

### Housing starts[13]


[12] Source: DCLG, England only.
[13] Source: DCLG, England only - https://www.gov.uk/government/statistical-data-sets/live-tables-on-house-building. Annual housing starts in 2015-16 saw a 1% increase from 2014-15. More information about the 2015-16 data can be found here: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525629/House_Building_Release_Mar_Qtr_2016.pdf

## Increasing home ownership

4.21 The Government's aim is to help more people own their own home. In 2015-16 the Department took steps to build more affordable homes, create new products to help people save for a deposit and buy new homes, and support council or housing association tenants to buy their home.

*Building more affordable homes*

4.22 The Government committed to delivering 400,000 affordable housing starts by 2020-21, focused on low-cost home ownership. This will include 200,000 **Starter Homes** which will be sold at a 20% discount compared to market value to young first-time buyers and 135,000 **Help to Buy: Shared Ownership** homes. £36 million was made available this year to kick start the Starter Homes programme[14].

4.23 £4.1 billion was allocated in the Spending Review 2015 for 135,000 **shared ownership homes** - allowing people to purchase a share of their home and pay rent on the remaining portion, with the ability to purchase a greater share over time[14]. Between April and September 2015, 1,642 affordable home ownership units were delivered with funding through the Homes and Communities Agency and the Greater London Authority.

*Creating new products to help people save a deposit and buy new homes*

4.24 In partnership with HM Treasury and HM Revenue and Customs the **Help to Buy ISA** was made available from 1 December 2015[15]. As at 31 March 2016, over a quarter of a million people had opened a Help to Buy: ISA account.

4.25 Over 25,000 homes were sold under the **Help to Buy: Equity Loan** scheme between April and December 2015. The scheme has achieved sales of over 73,000 new-build homes between April 2013 and December 2015, with 81% of sales to first-time buyers[16]. The scheme has been extended to 2021 supporting the purchase of up to 145,000 homes.

4.26 **London Help to Buy** was launched on 1 February 2016 offering equity loans of up to 40% for new build homes in London. This could help over 10,000 households purchase a home in the next five years, with nearly 700 reservations in the first two months of the scheme[17].

*Supporting council and housing association tenants to buy their home*

4.27 Between April and December 2015, the **Right to Buy** scheme helped over 8,900 households to buy their home, bringing the total sales since reinvigoration in April 2012 to more than 49,000[18].

4.28 An agreement with housing associations will give a further 1.3 million tenants the chance to own their home under the **Voluntary Right to Buy** scheme. In November 2015, ahead of full implementation, the Department launched a pilot scheme with five housing associations[19].

4.29 Since January 2016 almost 27,000 housing association tenants have registered their interest in the Voluntary **Right to Buy**.

14 https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents
15 https://www.gov.uk/government/news/help-to-buy-isa-open-yours-today
16 https://www.gov.uk/government/statistical-data-sets/help-to-buy-equity-loan-scheme-quarterly-statistics
17 https://www.gov.uk/government/news/london-help-to-buy-opens-its-doors
18 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/510317/Right_to_Buy_sales_in_England_2015_to_2016_quarter_3.pdf
19 https://www.gov.uk/government/news/housing-association-tenants-take-first-step-to-homeownership

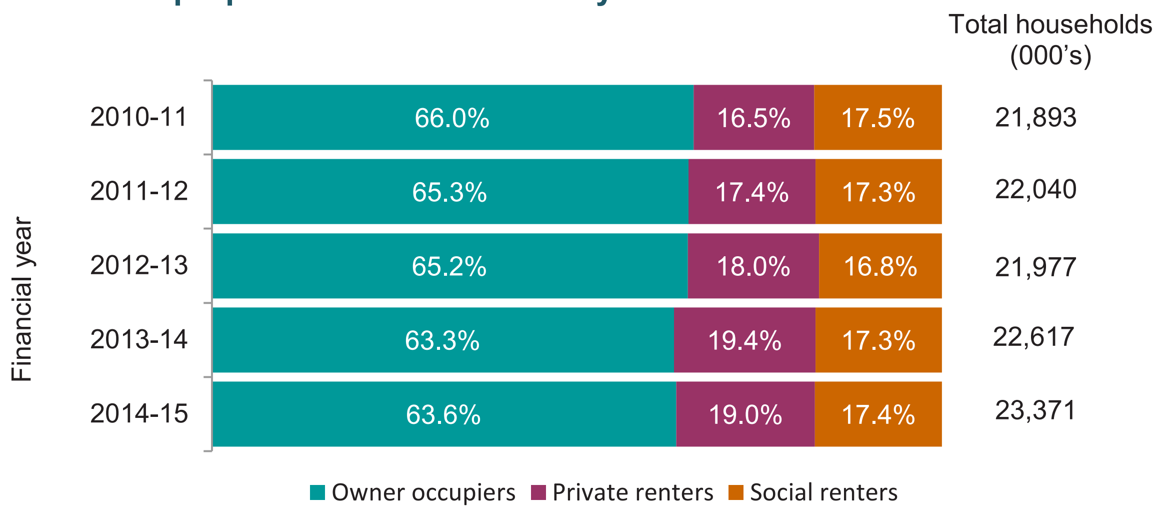
## INCREASING HOME OWNERSHIP: Measuring progress

### First time buyers[20]


### Help to Buy: Equity Loan sales[21]

**73,813** properties sold

### Number and proportion of households by tenure[22]




[20] Source: Council of Mortgage Lenders, England only. Available: https://www.gov.uk/government/publications/dclg-single-departmental-plan-2015-to-2020/single-departmental-plan-2015-to-2020

[21] Source: DCLG, England only - https://www.gov.uk/government/statistical-data-sets/help-to-buy-equity-loan-scheme-quarterly-statistics. From 1 April 2013 to 31 December 2015. The majority of sales under the Help to Buy: Equity Loan programme were to first-time buyers (59,871 representing 81% of total sales). From April to December 2015 there were more than 25,000 sales, a 14% increase on the same period a year early.

[22] Source: English Housing Survey, England only - https://www.gov.uk/government/collections/english-housing-survey. Data for 2015-16 will be released in February 2017.

## Devolving powers and budgets to boost local growth in England

4.30 The Department's policies aim to empower local areas through the devolution of powers and budgets from Whitehall, drive collaboration between the public and private sector on local growth decisions, and close the decades-old economic gap between North and South, creating a balanced, healthier economy.

4.31 The **Cities and Local Government Devolution Act** (enacted in January 2016) enables Government to devolve a range of powers and budgets currently held by Whitehall - such as housing, policing, transport and skills - to local areas. It also enables the creation of combined authority mayors, as well as other measures to improve the accountability of local leaders to their electorates. This work is taken forward by the Governance Reform and Democracy Team and the Cities and Local Growth Unit, a joint venture between the Department for Communities and Local Government and the Department for Business, Innovation and Skills. The Unit won the Supporting Growth and Productivity Award at the Civil Service Awards in November 2015.

*Creating the conditions to drive local growth including bespoke deals with places*

4.32 In addition to the six **devolution deals** agreed since May 2015, three new deals with East Anglia, Greater Lincolnshire and the West of England were announced in the Budget 2016. These deals give new powers over transport, planning and skills and investment funds worth over £2.2 billion. The Budget 2016 also confirmed that further powers will also be devolved to Greater Manchester including working towards the devolution of criminal justice services[23].

4.33 The Department announced that it will give **more control over European Union funding** via an Intermediate Body as part of devolution deals in Cornwall, Tees Valley, the North East, Liverpool and Greater Manchester. The Government has also committed to work with Greater Lincolnshire and East Anglia to test whether it is possible to giver Intermediate Body status to these combined authorities. The Budget 2016 confirmed that the Government is committed to working with the West of England Combined Authority to achieve Intermediate Body status for the European Regional Development Fund (ERDF) and European Social Fund. The **ERDF Programme** for 2007-13 has leveraged almost £3.1 billion of match funding. The programme has created or attracted almost 25,000 new businesses (significantly exceeding the target of 14,832) and created over 117,000 jobs. The Programme ended in December 2015[24]. The 2014-20 **ERDF Operational Programme** was formally adopted by the Commission in June 2015. Funds have been notionally allocated to the 39 Local Enterprise Partnerships (LEPs) and sit alongside other local growth funds[25]. Since this is a European programme, there is now uncertainty as to the future of this programme as a result of the 'leave' result in the referendum on the UK's membership of the EU.

4.34 In April 2016 over £1.1 billion was given to Local Enterprise Partnerships from the £12 billion Local Growth Fund to support vital transport, skills and infrastructure projects across England, as part of our commitment to Growth Deals. In the Budget 2016 a further round of **Growth Deals** with Local Enterprise Partnerships was announced, worth up to £1.8 billion[23].

4.35 The Spending Review 2015, Budget 2015 and Budget 2016 announced commitments to 24 new and eight extended **Enterprise Zones** across the country. Subject to business cases local agreement, this will bring the total number of Enterprise Zones to 48.

*Supporting the North and the Midlands to reach their potential as a driver of UK economic growth*

4.36 The Spending Review 2015 committed to create a £400 million **Northern Powerhouse Investment Fund** with the European Regional Development Fund (ERDF) a part of the package[26]. Ten of the new and extended **Enterprise Zones** are in the Northern Powerhouse.

4.37 The **Northern Transport Strategy**[27] was published in March 2016 and the **Transport of the North Independent Economic Review** is due to be published later this year.

4.38 The Department has supported 11 Local Enterprise Partnerships (LEPs) to develop a **Midlands Engine Prospectus** and are now supporting them to implement it[26]. The Midlands has secured two new

[23] https://www.gov.uk/government/publications/budget-2016-documents/budget-2016
[24] https://www.gov.uk/guidance/erdf-programmes-progress-and-achievements
[25] https://www.gov.uk/government/publications/draft-european-regional-development-fund-operational-programme-2014-to-2020
[26] https://www.gov.uk/government/publications/midlands-growth-prospectus
[27] https://www.gov.uk/government/publications/northern-transport-strategy-spring-2016

Enterprise Zones and two extensions, a £5 million trade and investment package, and £1.25 million to support the HS2 growth strategy at Toton Common.

*Support for coastal communities*

4.39 The Autumn Statement 2015 announced the continuation of the **Coastal Communities Fund** for another four years from 2017-18 to 2020-21 with at least a further £90 million available[28]. The fund helps seaside towns diversify their economy to be year-round success stories. The 2016 Budget also confirmed the next round of the Coastal Communities Fund for projects starting in 2017-18 and will open for applications this summer[29].

*Supporting local businesses to drive growth*

4.40 The Department doubled the level of small **business rate relief** for a further year which meant that approximately 400,000 businesses paid no business rates at all in 2015-16.

4.41 Working with HM Treasury, a review of the **business rates** system in England was undertaken and concluded in the Budget 2016. The Chancellor announced:

- reduced business rates from 2017-18 for half of all properties;
- 600,000 small businesses will pay no business rates at all;
- the pilot of 100% retention of business rates with Liverpool City Region, Greater Manchester and the Greater London Authority. This offer is also available to other city regions that have ratified their devolution deals[29].

4.42 The Department launched a **Cutting Red Tape review** on local authority enforcement in March 2016 to gather evidence of unnecessary regulatory burdens imposed on businesses by local authorities that could be removed or reduced, including evidence of where this also imposes unnecessary or avoidable burdens and costs on local authorities[30]. This will contribute to the manifesto commitment to cut £10 billion of red tape over this Parliament.

*Supporting local community rights*

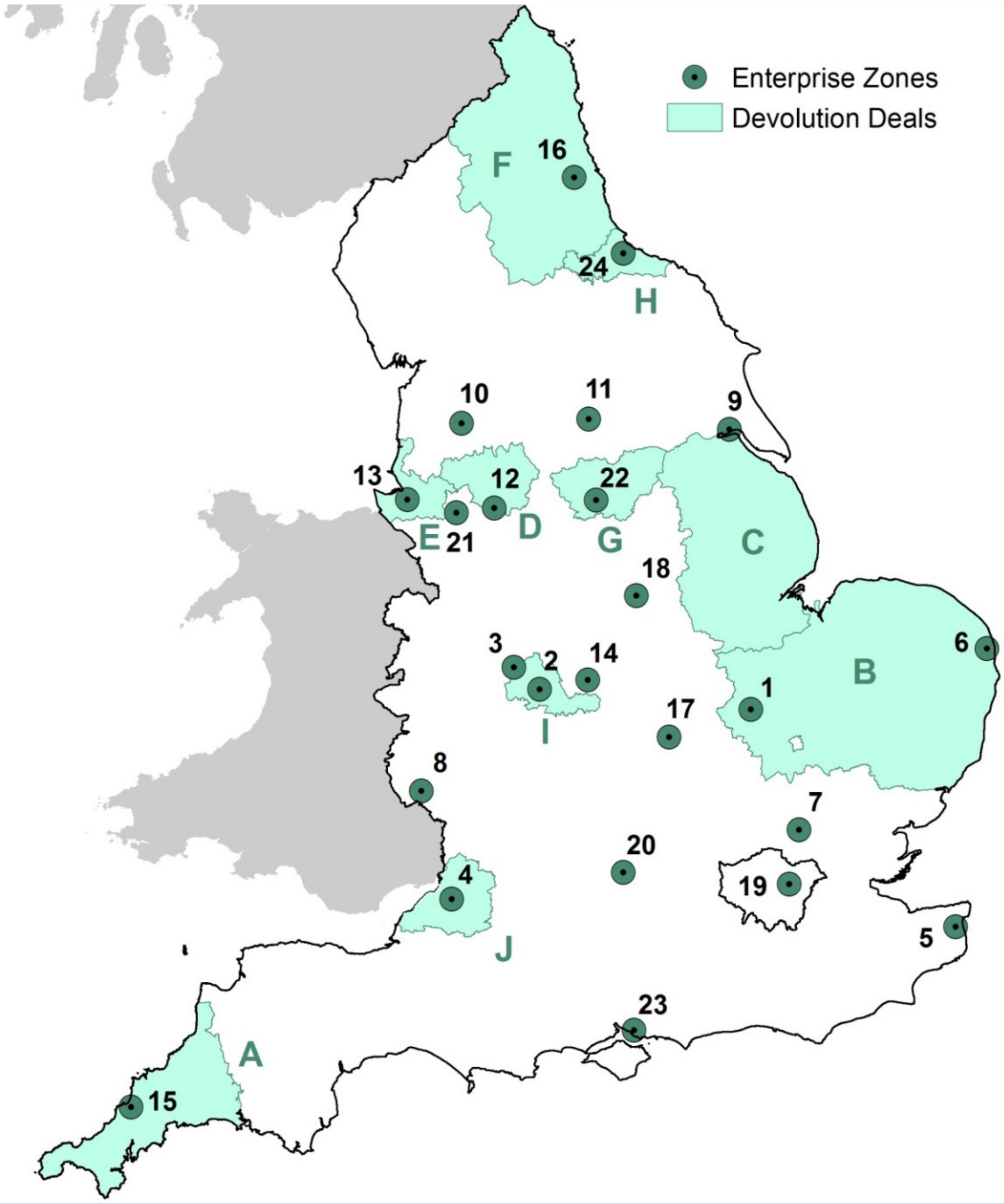
4.43 To actively support communities to use community rights, neighbourhood planning and other neighbourhood approaches to create positive change in their local area, the Department jointly with the Cabinet Office set up the £500,000 **Community Organisers Mobilisation Fund** which has so far funded 27 Community Organisers[31].

4.44 More than 1,700 communities have started the process of **neighbourhood planning** - representing over 8 million people in 70% of local authorities. There have now been 126 successful neighbourhood planning referendums.

[28] https://www.gov.uk/government/publications/summer-budget-2015
[29] https://www.gov.uk/government/publications/budget-2016-documents/budget-2016
[30] https://cutting-red-tape.cabinetoffice.gov.uk/local-authorities/
[31] https://www.gov.uk/government/news/new-funding-for-community-organisers-announced

**DEVOLVING POWERS AND BUDGETS TO BOOST LOCAL GROWTH: Measuring progress**

**Enterprise Zones and Devolution deals**[32]




**Enterprise Zones**

1. Alconbury
2. Birmingham
3. Black Country
4. Bristol Temple Quarter
5. Discovery Park
6. Great Yarmouth and Lowestoft
7. Harlow
8. Hereford
9. Humber
10. Lancashire
11. Leeds City Region
12. Manchester Airport City
13. Mersey Waters
14. MIRA, Technology Park
15. Aerohub Cornwall
16. North East
17. Northampton Waterside
18. Nottingham and Derby
19. London Royal Docks
20. Science Vale
21. Sci-Tech Daresbury
22. Sheffield City Region
23. Solent
24. Tees Valley

**Devolution Deals**

A. Cornwall and Isles of Scilly
B. East of England
C. Greater Lincolnshire
D. Greater Manchester
E. Liverpool City Region
F. North Eastern
G. Sheffield City Region
H. Tees Valley
I. West Midlands
J. West of England

[32] Source: DCLG, England only. As at 30 April 2016.

## Supporting strong communities with excellent public services

4.45 Communities deserve excellent and integrated public services that support them to achieve and create places where people feel they belong. In 2015-16 the Department supported local authorities to continue to transform their services, provided greater certainty over funding, worked to join up the approach between care delivered in hospitals and the care people receive in their own home, supported the vulnerable in their communities and engaged with our hardest to reach families with personalised support, tailored to their needs.

*Supporting local government to deliver services and giving them greater certainty over their funding*

4.46 On 17 December 2015 the Department announced that all local authorities will be offered a **guaranteed 4-year budget** which will enable them to plan with greater certainty over the course of this Parliament. On 8 February we confirmed that local authorities will have until 14 October 2016 to respond to the offer of a commitment to their minimum financial resources until 2020, as long as they can demonstrate efficiency savings and publish an efficiency plan[33].

4.47 In 2015-16 the Local Government Association was granted £23.382m for **specified body funding** as part of the Local Government Finance Settlement.

4.48 Following on from the whole place community budget pilots, the **Public Service Transformation Network** continued to improve the way local and central government work together to reform services. This year 14 secondees from across Whitehall worked in 13 places co-designing the integration of services including blue light, health, employment support and housing. Much of what has been learnt from the network's work in local places has now been mainstreamed across government.

4.49 In March 2016 the **local government counter fraud and corruption strategy** was published and launched[34]. The strategy sets out key recommendations to help local authorities tackle the losses from fraud and protect public services.

*Joining up adult health and social care*

4.50 The Government recognised the growing cost to councils of providing **adult social care.** From 2016, councils can set an additional social care precept of 2% as part of their council tax bills. This will raise up to £2 billion by 2020[33]. Even with the additional support for adult social care, the average council tax bill in England for a Band D property rose by 3.1% in 2016-17[35]. Excessive council tax increases remain subject to a local referendum.

4.51 The **Better Care Fund** was formally established on 1 April 2015 to help drive the integration of health and social care services. The size of the overall fund grew to a total of £5.3 billion as local authorities and clinical commissioning groups chose to put an extra £1.5 billion of funding into local pooled budgets, additional to the original £3.8 billion fund.

4.52 All 150 local **Better Care Fund** plans were approved at national level and signed-off by Health and Wellbeing Boards. Since then, areas have been putting in place a joint approach to assessment and care planning, shared digital patient records, and multi-disciplinary teams to help people get home from hospital safely and quickly – so that people experience joined-up care.

4.53 The Department along with the Department of Health jointly published the **Better Care Fund** policy framework in January 2016 which set out a streamlined approach to running the fund this year, aligned with mainstream planning processes in the NHS and local authorities[36].

*Supporting the vulnerable*

4.54 All 150 upper tier local authorities have now signed up to deliver the new **Troubled Families Programme** which will work with up to 400,000 families by 2020. In 2015/16, 100,690 families with multiple problems were brought onto local Troubled Families Programmes and the department made 8,769 results

[33] https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2016-to-2017
[34] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/503657/Fighting_fraud_and_corruption_locally_strategy.pdf
[35] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/512402/Council_tax_levels_set_by_local_authorities_in_England_2016-17.pdf
[36] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/490559/BCF_Policy_Framework_2016-17.pdf

payments in respect of such families where significant and sustained progress has been achieved or an adult member has moved into continuous employment[37].

4.55 Helping people get back in to work continued to be a high priority for local authorities and the Department. In partnership with the Department for Work and Pensions and the Department of Health, the Department supported four **mental health trailblazers** – in Blackpool, Greater Manchester, the North East Combined Authority and West London Alliance – developing new services for 5,000 people with mental health problems and securing £8 million additional investment from the Big Lottery[38].

4.56 In 2015 the Department worked with 17 projects to end female genital mutilation (FGM) and establish new networks of champions against **FGM and forced marriage**. The projects worked with communities across the country in Bolton, Birmingham, Leeds, London, Manchester and Milton Keynes. They worked in schools, with health workers, in mosques and online.

4.57 The Department provided a £250,000 **Women's Empowerment Fund** designed to empower women, especially from isolated and BME communities, to overcome barriers that can inhibit them from reporting violence against women and girls. The Fund awarded up to £20,000 to 14 innovative and exemplary projects to give women the confidence and tools to challenge abuse[39].

4.58 Budget 2016 announced £100 million to **help people move on from emergency hostels and refuges**. This will pay for 2,000 places to live. A further £10 million will go towards schemes aimed at helping people who have recently started **rough sleeping** to come off the streets[40].

4.59 Over the 3 years to March 2016 the Department provided £8 million to support 33,500 isolated adults to learn English through six community-based **English language projects**. The learning from these projects will help inform the new £20 million English language offer announced on 18 January 2016 to help women in our most isolated communities get the training they need.

4.60 The Department, working in collaboration with the Home Office and the Department for International Development, achieved its target of resettling 1,000 **Syrian refugees** by Christmas 2015[41].

*Strengthening communities*

4.61 In the winter of 2015-16, residential and business properties were flooded following Storms Desmond and Eva in the north of England. The **Bellwin Fund** was activated to provide emergency support for the immediate response costs faced by local authorities[42]. The Department then launched the **Communities and Business Recovery Scheme** to help local authorities provide support to help their communities recover from the flooding – including increasing resilience[43]. In addition to this, the Department made available funds to allow local authorities to provide 100% council tax discounts and business rate relief for a minimum of three months and during the period when houses and businesses remain empty.

4.62 The successful roll out of the **Pocket Parks programme** this year saw the Department work with 87 community groups across the country. They received a share of the £1.5 million dedicated fund to transform urban spaces into green oases for the benefit of local people. This will encourage community participation and engagement as well as provide further opportunities for health and wellbeing and the opportunity to experience the local natural environment with the addition of new quality green space[44].

4.63 The Department has supported over 300 communities with grants and support through **Community Rights** which has provided £6.7 million to local areas. These have helped to transfer assets, create local economic growth and transfer public services into community ownership[45].

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[37] 100,690 families engaged as at March 2016. 8,769 results payments as at January 2016.
[38] https://www.gov.uk/government/news/12-million-to-help-people-with-mental-health-problems-get-back-into-work
[39] https://www.gov.uk/government/news/new-fund-to-help-women-speak-up-on-child-sexual-exploitation
[40] https://www.gov.uk/government/publications/budget-2016-documents/budget-2016
[41] https://www.gov.uk/government/news/pm-government-has-met-commitment-to-resettle-1000-refugees-by-christmas
[42] Bellwin now covers 100% of costs above the qualifying threshold of 0.2% of the council's calculated annual revenue budget.
[43] https://www.gov.uk/guidance/flood-recovery-households-and-businesses
[44] https://www.gov.uk/government/news/green-light-given-to-over-80-pocket-parks
[45] https://www.gov.uk/government/news/6-million-new-funding-to-give-communities-even-greater-local-control

**SUPPORTING STRONG COMMUNITIES WITH EXCELLENT PUBLIC SERVICES: Measuring progress**

**Families engaged with Troubled Families programme**[46]

**100,690** families engaged

**Health and social care**

**£5.3 billion**

The Better Care Fund was formally established on 1 April 2015 to help drive the integration of health and social care services. The size of the overall fund grew to a total of £5.3 billion as local authorities and clinical commissioning groups chose to put an extra £1.5 billion of funding into local pooled budgets, additional to the original £3.8 billion fund.

We will report progress of local areas against the health and social care integration scorecard when it becomes available in late 2016.

**Cohesive Communities Programme**

We will report progress on the Cohesive Communities Programme once it is established following Louise Casey's review due in 2016.

[46] DCLG, England only. As at March 2016.

## Managing the Department

4.64 The Department for Communities and Local Government has a big role to play in delivering the Government's commitments. The Department adapted quickly to the new Government in May 2015 and agreed ambitious plans to deliver on our four ministerial priorities.

4.65 The Department has been given a wide range of policy aims that depend upon factors that are not entirely within the Department's control such as the state of the economy, the actions of private sector developers and the engagement and support of local politicians. The Department acknowledges, manages and mitigates against these risks to in delivering our priorities.

4.66 The Department was given a clear mandate to deliver those priorities in our Spending Review settlement in November 2015 – and as part of our focus on delivering those priorities effectively and efficiently, we need to make a 20% reduction in our administration pay budget. We are responding to this significant challenge head on, making changes that will enable us to be smarter and more streamlined in the way we work.

*Increasing the focus on delivery and performance information*

4.67 The Department was one of the pioneer departments to establish an Implementation Unit. The unit is based on the Prime Minister's Implementation Unit model and exists to support the Secretary of State, Board and Permanent Secretary to drive delivery, take action to address delivery barriers and to build department wide implementation capability. Since it was set up in October 2015 the Department's Implementation Unit has:

- created a new performance framework with agreed metrics and priority programmes in order to ensure the organisation is focussed on tracking delivery, regularly reported to Board and Executive Team;
- led implementation reviews of key policy areas to unblock issues and ensure fresh approaches are considered;
- developed a delivery planning framework to support robust planning across the department and commissioned detailed Delivery Plans from all major programmes. The framework is drawn from the Cabinet Office Implementation Framework and lessons gathered from good practice across the public and private sector. It ensures that programmes have clear performance metrics and strong programme and risk management in place; and
- embedded delivery planning within the department's new Strategic Risk framework.

*Organisational design and business planning*

4.68 The Department is undertaking a comprehensive organisational design and change programme looking at how we organise ourselves and operate to deliver the Government's priorities within the Spending Review envelope. We have established a business planning process to assess the resources we need for each area of our Department, with a clear understanding of the role areas play in delivering ministers' key objectives. We are now in the process of responding to the outcomes of the business planning process and what that means for any further steps to reform our workforce. In 2015-16 we took an early decision to run a voluntary exit scheme, through which 213 staff took up the opportunity to leave the Department. This has put us ahead of the curve in delivering against our pay budget reductions enabling us to manage our reduction flexibly over the next few years.

4.69 In line with the Cabinet Office-led Next Generation Shared Services strategy, DCLG and a service provider signed a contract in December 2013 for the provision of transactional finance, procurement, HR and payroll services. A number of other Government Departments also signed contracts for the provision of services from their 'Independent Shared Service Centre 1' (ISSC1) operating platform. The Department, along with a number of other government departments, exited its contract with the service provider on 4 May 2016. HM Treasury approved a one-off settlement in respect of the early termination of these contracts, with DCLG's share of this payment being £726,000. The Department remains committed to the Government's shared services programme and the long-term strategy for the Department's transactional services includes moving to a shared services arrangement.

*People*

4.70 In summer 2015, the Department ran a series of conversations involving people across the Department to get their views on what the Department should aspire to in terms of its values, ways of working and culture, and in response we have launched a new vision. This will build on success in the latest Civil Service Staff Survey when we achieved a four percentage point increase in our employee engagement score to 57%, as well as being above the Civil Service median in all nine themes and a high performer in five of these.

4.71 Taking the knowledge we have gathered through business planning and organisational design about the skills and capabilities needed in the Department, and looking towards the aspirations in the new vision, we are now developing a Departmental People Plan. This will set out the specific actions we will take to achieve the necessary workforce reforms and offer our people work and development they will value. This includes a core curriculum, supporting everyone no matter what stage they are at in their career, and a significant emphasis on diversity and inclusion. It also includes a new approach to resourcing to ensure we are flexible and responsive in the way we work and build greater resilience across our workforce. In 2015-16 a good example of this is our quick resourcing of support to the response to the 2015 floods.

4.72 Our performance on key people metrics is found in the Staff Report, and includes:

- Public Sector Apprenticeships: The Department has a strong record of attracting and retaining good quality apprentices. In autumn 2015 the Department recruited 11 apprentices and plan to increase the annual intake to 20 from 2016-17.
- Reserves: The Government has set a challenge for at least 1% of Civil Servants being reservists by March 2019. The Department currently has two serving reservists which equates to 0.12% of our workforce. The Department continues to actively promote the opportunities and benefits that come with being a reservist through a combination of all staff communications, support for individuals who express an interest and ensuring support for serving reservists.

*Equality and diversity*

4.73 The Department has prioritised Diversity and Inclusion with a new strategy driven by data and alignment with the Civil Service Talent Action Plan 2015 and "Removing Barriers to Success" programme. It underpins the Departmental People Plan currently being developed to demonstrate that people, diversity and difference are valued and there is always a place within the Department for talented and committed people regardless of their background.

4.74 The Department has supported the improvement and strengthening of the capability of Staff Networks through strong partnership with their Board Diversity Champions. This is led through the engagement with our Permanent Secretary who meets the priority protected Network leads, with their Board Champion, bi-annually.

4.75 A comprehensive package of measures on supporting disabled staff and managers was introduced alongside providing mandatory face-to-face unconscious bias training to all line managers and members of the Senior Civil Service.

4.76 The Department's declaration rates for ethnicity (82%) and disability (83%) are above the civil service average. The Department has not been set a target for BME representation because our representation is above the civil service average of 10.1%. At January 2016, 20.4% of existing staff identified as from a black or minority ethnic background. Our talent pipelines to the Senior Civil Service are healthy across most of the priority groups. Just under 10% of our team leaders (Grade 6 and 7) have identified as BME, with BME also accounting for 11% of the top row of our talent grid which indicates a greater than 50% chance of progressing to Senior Civil Service roles. We are supporting progression of BME staff through our staff network and a range of targeted development programmes.

*Delivering through our Arms' Length Bodies*

4.77 The Department had one Executive Agency and ten other Arms Length Bodies (ALBs) during 2015-16, including the Ebbsfleet Development Corporation which was established in April 2015. During the year, the HCA Sponsorship Team moved to the Finance Directorate to work alongside the central sponsorship team covering the Planning Inspectorate (PINS), Ebbsfleet and the smaller bodies. The role of a sponsor team is twofold. On behalf of the Department, the team exercises meaningful and proportionate oversight of ALB strategy, financial management, performance and risk management. They also support Arms Length Bodies in being accountable, high performing organisations that deliver value for money services and support the Department in achieving its Ministerial priorities. This is achieved by developing good relationships with the bodies and ensuring that they adhere to government and departmental processes, guidance and standards as set out in documents such as individual Framework Documents, Delegations (including budget delegations and annual pay remits), Managing Public Money, and Cabinet Office Spending Controls.

4.78 Each ALB is delegated authority to manage its resources and safeguard public funds by the Department's Accounting Officer, and as such has its own Accounting Officer. There are regular meetings between the Department and ALB Accounting Officers to develop a common understanding of the organisation's risks, challenges and successes. There are also a number of ways in which the sponsor teams support the departmental Group to develop a common understanding of key issues and risks, such as facilitating regular meetings with ALB Accounting Officers and bringing together Chairs of Audit and Risk Assurance Committees. Members of the sponsor team attend meetings of ALB Audit and Risk Assurance Committees and support ALBs in a number of ways, for example through contributing at organisational risk workshops and induction of new Board Members.

### *Wider efficiency measures*

4.79 The Department has committed to becoming a more efficient department and is working towards achieving a 30% real terms reduction in its Administration Budget during the Spending Review period (see page 71 for more information). The work on this began during 2015-16 with a number of initiatives that will reduce costs and increase income. There are several strands to this work:

- Estates: minimising the office footprint taken up by the Department by sharing offices with other departments, reducing desk ratios in 2 Marsham Street and recovering income for vacant space;
- Contracts: renegotiating contracts and bearing down on cost with our Shared Service providers;
- Income: seeking to recover costs where appropriate; and
- Arms Length Bodies: agreeing medium term cost reduction programmes and sharing the cost of support and back office functions.

4.80 In 2015-16 this has involved:

- reducing our supplier cost base by evaluating our contract portfolio and working with Crown Commercial Services to renegotiate wherever possible;
- working with our shared service providers Crown Commercial Services, Government Legal Department, and Government Internal Audit Agency to improve ways of working and reduce costs and negotiating reductions in expenditure for 2016-17 for Crown Commercial Services and Government Internal Audit Agency;
- further consolidating our office space by piloting lower desk ratios in 2 Marsham Street;
- working with arm's length bodies towards new and more efficient operating models;
- recovering all eligible Technical Assistance administration expenditure to support delivery of the ERDF programme;
- closer working on the delivery of finance, human resources and IT services across the Department;
- delivering excellent IT services to our users and taking advantage of cross- government platforms, technology services and the best commercial offerings; and
- consolidating and simplifying Business Support applications.

4.81 The Department has agreed a 60% reduction target for greenhouse gas emissions with the Department for Energy and Climate Change. Plans are in place to deliver commitments on greenhouse gas emissions, domestic flights, waste, paper consumption, water and sustainable procurement.

4.82 We will take this further by working collaboratively with Cabinet Office, HM Treasury and other government departments to deliver transformational change in key areas including:

- developing digital solutions that meet common standards set by the Government Digital Service and utilise cross Government platforms such as GOV.UK Verify, GOV.UK Pay or GOV.UK Notify as part of departmental digital services wherever this demonstrates the best value for money solution for Government;
- rationalising our estate in a joined up way, looking to develop ‘government office hubs’ with other government departments, releasing land for housing where possible and participating in the development of the new commercial property model;
- delivering further savings in our commercial relationships including through spend on common goods and services, delivered in partnership with Crown Commercial Services;
- working in partnership with: the Cabinet Office to deliver arm’s length bodies transformation plans; Infrastructure and Projects Authority on major projects programmes and prioritisation;
- developing options to reduce foreign exchange losses in the delivery of the ERDF programme;
- reducing losses through fraud and error alongside developing a debt management strategy;
- continuing to build our commercial capability and working with Crown Commercial Services to deliver the Government's commitment to 33% of spend with SMEs by 2020; and
- Improving our use of data and making it open for all.

4.83 The Department has continued to expand the range and volume of open datasets, working with the local and voluntary sectors to link the Department’s and other data sources. In the year to 31st October 2015, The Department’s OpenDataCommunities site attracted almost 85,000 users, an increase of 40% over the previous year.

4.84 In November 2015 work was completed to determine how and where the Department should use data more extensively and effectively to inform and measure its policies and programme priorities. This identified opportunities to enhance our evidence-base and confirmed potential to apply data-science techniques, including using data to test the likely future impact of our policies against different delivery scenarios.

4.85 The Department is also leading innovative work to securely link de-identified administrative datasets across government departments in order to evaluate its programmes, including for Troubled Families where linking at this scale around families is being done for the first time in England.

4.86 Following publication of the widely anticipated Indices of Deprivation 2015[47] on 30th September, the Indices webpage became by far the most popular page on the .gov.uk statistics pages, achieving over 36,000 page views in October 2015. Other ways of accessing the statistics have also been popular including the Indices of Deprivation explorer[48] for mapping and Open Data Communities[49].

### *Leaving the European Union*

4.87 On 23rd June 2016, the referendum held to decide whether the UK should remain in or leave the EU resulted in a ‘leave’ result. As a consequence, from 2016-17, the Department will be working out what this will mean for the delivery of its policy objectives going forward.

[47] https://www.gov.uk/government/statistics/english-indices-of-deprivation-2015
[48] http://dclgapps.communities.gov.uk/imd/idmap.html
[49] http://opendatacommunities.org/data/societal-wellbeing/imd/indices

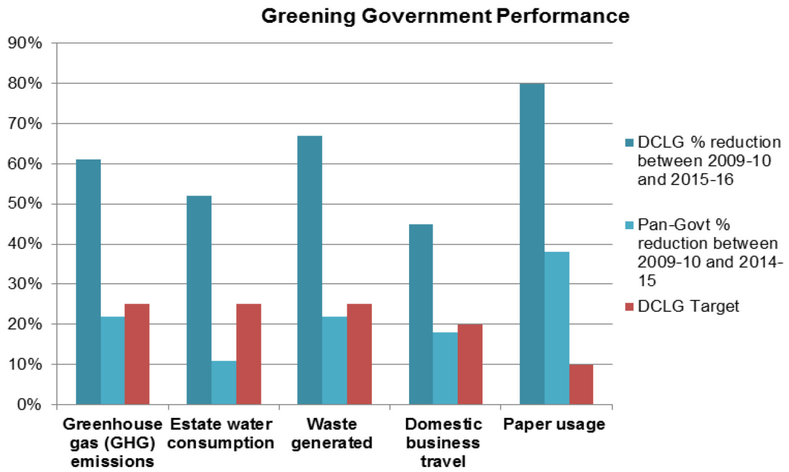
# 5 Performance against Other Required Reporting

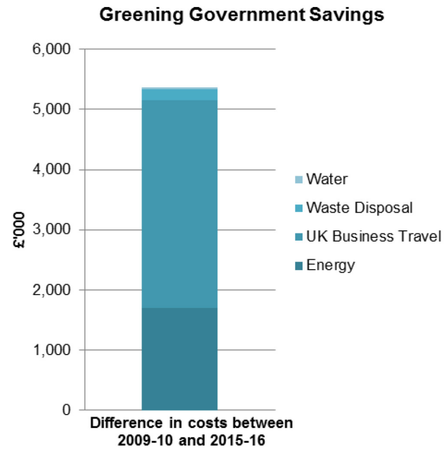
## Sustainability

5.1 The Department's overarching sustainable operations strategy is to reduce the total size of its estate in line with the Cabinet Office National Property Controls, thereby reducing utilities consumption and travel, and focusing on operating its remaining buildings even more efficiently. In working towards improving performance against all of the Greening Government Commitments, during 2015-16, the Department has focused on areas which were proving more difficult to meet such as the office water benchmarks and harder to influence areas such as domestic air travel. The Department has also issued guidance on embedding sustainability at individual building level within Building User Guides and within facilities management processes and procedures.

5.2 The Department is reporting a full data set which includes information from its executive agencies and Non Departmental Public Bodies. Non-financial information will include the Queen Elizabeth II Conferencing Centre. The Queen Elizabeth II Conferencing Centre is classified as a non-office site which is included in the Department's total water consumption but sits outside the office benchmark figures.

5.3 The Department exceeded all the Greening Government Commitments targets for 2015-16, demonstrating considerable reductions against greenhouse gas emissions, waste and water as well as reducing associated financial costs. This has been achieved largely through better building management (primarily relating to heating and cooling), estate rationalisation/co-location, and adopting more resource efficient behaviours.




5.4 The Department has made £5.4m financial savings between 2009-10 and 2015-16 following reductions in energy, water, UK business and waste disposal, the largest single saving from reducing business travel, amounting to £3.4m.

### *Greenhouse Gas Emissions*

5.5 The Department has continued to reduce its total in-scope gross greenhouse gas emissions throughout 2015-16, achieving a total reduction of 61% since the 2009-10 baseline year. The Department has continued to reduce its energy bill and since 2009-10 has achieved savings of c.£1.7m; this has largely been achieved through low and no cost energy efficiency measures and estate rationalisation.

5.6 The Department is voluntarily reporting on its international business travel to provide greater transparency. The Department undertakes a limited amount of international travel meaning that small changes in travel patterns can result in significant percentage changes year on year. For example, emissions from international travel almost doubled in 2015-16 compared to 2014-15 because of a small delegation visting China.

5.7 The number of domestic flights has reduced by 45% for 2015-16 against 2009-10, and can be attributed to a clear authorisation process being in place across Departmental NDPBs and Executive Agencies for domestic flight travel. Continued focus on achieving value for money in all aspects of business delivery has positively impacted on reducing emissions from all business travel.

| Greenhouse Gas Emissions[50] | | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|
| Non-Financial Indicators (tonnes $CO_2$e) | Total Gross Scope 1 (Direct) GHG emissions | 2,033 | 1,921 | 1,386 | 1,628 |
| | Total Gross Scope 2 (Energy indirect) emissions | 8,494 | 6,849 | 7,186 | 5,835 |
| | Total Gross Scope 3 (Official business travel) emissions | 3,031 | 2,130 | 2,234 | 1,647 |
| | **Total Emissions - Scope 1, 2 & 3** | **13,558** | **10,900** | **10,806** | **9,110** |
| Related Energy Consumption (MWh) | Electricity: Non-Renewable | 3,459 | 1,091 | 822 | 0 |
| | Electricity: Renewable | 14,556 | 14,284 | 13,718 | 12,624 |
| | Gas | 10,977 | 10,438 | 7,494 | 7,105 |
| | **Total Energy Consumption** | **28,992** | **25,813** | **22,034** | **19,729** |
| Financial Indicators (£'000) | Expenditure on Energy | 1,716 | 2,019 | 1,603 | 1,238 |
| | CRC Licence Expenditure | 85 | 98 | 179[51] | 197 |
| | Expenditure on accredited offsets (e.g. Government Carbon Offsetting Fund) | 1 | 1 | 0[52] | 0 |
| | Expenditure on official business travel | 2,687 | 3,880 | 4,192 | 2,712 |
| | Expenditure on domestic air travel | 23 | 65 | 35 | 21 |
| | **Total Expenditure on energy and business travel** | **4,512** | **6,063** | **6,009** | **4,168** |

| International Business Travel | | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|
| Non-Financial Indicators (Tonnes $CO_2$e) | Flights | 9 | 35 | 26 | 51 |
| | Rail | 31 | 1 | 1 | 1 |
| | **Total** | **40** | **36** | **27** | **52** |

### *Waste Management*

5.8 Waste has been reduced by 65% since 2009-10 and paper use has been cut by 83%, largely due to spend controls and better print facilities (including ‘print on collection’ settings). 20% of waste is currently sent to landfill but the Department is aiming to reduce this to less than 10% off its total waste figure by 2020. The Department works closely with its facilities management provider to actively manage all aspects of the Department’s office waste including provision of recycling facilities, data analysis and improving staff awareness.

[50] In line with DEFRA guidance, the Department’s greenhouse gas emissions data is not weather corrected.
[51] The increase in expenditure relates to the Homes and Communities Agency participating in the Department’s CRC return.
[52] The Department will be offsetting emissions from ministerial and official business travel undertaken in 2015-16 during the 2016-17 financial year.

| Waste | | | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|
| Non-Financial Indicators (tonnes CO2e) | **Total waste** | | **1,269** | **681** | **728** | **732** |
| | Hazardous waste | | 2 | 2 | 1 | 3 |
| | Non-hazardous waste | Landfill | 194 | 117 | 145 | 145 |
| | | Reused/Recycled | 972 | 492 | 434 | 500 |
| | Incinerated/ energy from waste | | 101 | 70 | 148 | 84 |
| | Reams of Paper Procured | | 28,854 | 30,966 | 26,052 | 14,745 |
| Financial Indicators (£'000) | **Total disposal cost** | | **105** | **108** | **111** | **75** |
| | Non-hazardous waste | Landfill | nk | nk | nk | nk |
| | | Reused / Recycled | nk | nk | nk | nk |
| | Paper Procured | | 97 | 85 | 75 | 47 |

## *Water Consumption*

5.9 Since 2009-10, the Department has reduced its estate-wide water use by 52%, and by 69% from its office estate; this equates to a consumption figure of 4m$^3$ per FTE per annum. The percentage of offices falling within good and best practice benchmarks continues to improve with good practice (4m$^3$ to 6m$^3$ water per FTE per annum) increasing to 57% compared to 14% in 2009-10, whilst the percentage meeting best practice performance (less than or equal to 4m$^3$ water per FTE per annum) has been maintained. The percentage of poor performing offices has fallen from 73% in 2009-10 to 29% in 2015-16.

5.10 Water reductions have been achieved through leak reduction and repair work, refining operational processes from plant and equipment such as cooling systems, fitting more efficient devices such as tap aerators, and encouraging more sustainable water use.

| Water Consumption | | | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|
| Non-Financial Indicators (m$^3$) | Water Consumption | Office Estate | 39,602 | 33,227 | 41,687 | 19,143 |
| | | Office Estate per FTE | 5 | 5 | 6 | 4 |
| | | Whole Estate | 62,168 | 49,521 | 71,340 | 47,990 |
| Financial Indicators (£'000) | Water Supply & Sewage Costs | | 76 | 109 | 106 | 82 |

## *Other Sustainability Commitments*

5.11 The Department is committed to procuring sustainably and reports against a number of transparency commitments as part of the Greening Government Commitments framework.

| Other Sustainability Commitments | |
|---|---|
| Sustainable Procurement | The Crown Commercial Service (CCS) provides a managed service procurement function to the Department. Any new procurement staff are provided with training on sustainable procurement. Extensive sustainability clauses are embedded within the Department's facilities management and ICT contract. New contracts require that suppliers meet the Government Buying Standards. |
| SMEs | For 2015-16, the Department's total expenditure with Small Medium Enterprise organisations was 21%. The figure includes both direct and indirect spend (i.e. spend with subcontracted third parties).The Department is investigating the underlying reasons behind this fall and is developing plans to improve performance as a priority for 2016-17. |
| Climate Change Adaption | Sites located within flood risk areas are all registered with the Environment Agency for flood warnings in the event of any risk of flooding. Climate resilient designs are incorporated in retrofit projects and new builds . In addition robust business continuity plans are in place to manage occurrences of extreme weather events. |
| Biodiversity & Natural Environment | The Department operates within a closed loop recycling system, reducing associated energy and water consumption, carbon emissions, and the requirement to use virgin paper products. |
| Procurement of Food & Catering | All food supplied is produced to UK or equivalent standards. Menus are designed to reflect in-season produce and purchased locally where feasible to do so to reduce food miles and to assist in supporting our local suppliers. |
| Sustainable Construction | Where minor refurbishment work has been carried out, complete Site Waste Management Plans are produced to detail all waste removed and recycled. |

## Sustainable development

5.12 We are continuing to devolve substantial funding and powers to local areas to give them the tools and incentives to drive growth in their communities. An internal review of unit governance was presented in March 2016 and resulting best practice improvements are being implemented.

5.13 We are implementing and responding to recommendations from the NAO's value for money report on Local Enterprise Partnerships (LEPs). We continue to engage with local areas, public and private organisations and LEPs through BIS Local.

5.14 The Cities and Local Growth Unit's two Policy School events, run in partnership with Sheffield City Region and Milton Keynes, have explored the big issues and opportunities for local growth in these places, including opportunities for more sustainable forms of local growth. Approximately 50 staff members across the two events pitched their policy ideas to the local areas, which included proposals on sustainable modular housing and public realm improvements to increase walking and cycling. We are looking to build on previous work to further improve performance at the next policy school planned for summer 2016.

## Rural proofing

5.15 DCLG has carried out awareness raising and training on a wide number of checks (Equality Duty, Health Impact Assessment, and Environmental Impact Assessment) that we expect all policy makers to consider. The Rural Proofing Impact assessment is an important element of that suite of checks. Consideration of rural proofing is reflected in areas from the local government finance settlement to neighbourhood planning.

5.16 DCLG works closely with DEFRA to develop housing policies which take account of the potential impact on rural communities and with the Homes and Communities Agency on improving the quantity, quality and speed of delivery of rural affordable housing.

5.17 The Right to Buy extension, being delivered through a historic voluntary agreement between the government, housing associations and the National Housing Federation, recognises the differing needs and issues of rural and urban areas and gives housing associations the discretion not to sell certain homes, including ones in rural areas. Where a housing association uses this discretion, tenants will be given the opportunity to purchase an alternative home. The Department has, and will continue to, engage widely with the housing association sector, including representatives from a wide range of rural interest groups.

## Climate Change Adaptation

5.18 In exercising its responsibilities for planning, building regulations and resilience, the Department has had regard to the first national Climate Change Risk Assessment in January 2012 and the National Adaptation Programme (helping to make the UK more resilient to the effects of climate change) in July 2013.

5.19 In October 2015, DCLG contributed to the Government's joint-response to the reports by the Committee for Climate Change, Adaptation Sub-Committee and House of Commons Environmental Audit Committee.

5.20 The Department continues to ensure that policies with long term implications are robust in the face of changing weather, extreme events and sea-level rise from climate change.

5.21 Climate Change Adaptation is featured in the divisional progress and risk monitoring processes with capacity to escalate to department level if needed. DCLG is active in engaging with national and local organisations which have an interest in climate change adaptation. DCLG has taken part in the independent review, chaired by Dr Peter Bonfield, on Consumer Advice, Protection, Standards and Enforcement for UK home energy efficiency and renewable energy measures. DCLG provided input to efforts, by the Climate Change Steering Group and Local Advisory Adaptation Committee, to advise and share good practice on climate change adaptation.

## Other Required Reporting

5.22 The Department is required to report against various other topics in its Annual Report and Accounts as per the requirements set out in PES (2015) 10:

5.23 The performance of the Department on deregulation, along with all other departments, will be reported by the Better Regulation Executive in their Annual Report later this year.

5.24 Section 70 of the Charities Act 2006 sets out a power for Ministers to give financial assistance to charitable, benevolent or philanthropic institutions and requires that payments made under this power are reported. The table at Annex A sets out the financial assistance provided by the Secretary of State under this power for the year 2015-16, totalling £29.632 million (2014-15: £42.253 million).

5.25 There have been no cases against the Department accepted for investigation by the Parliamentary Ombudsman.

5.26 In 2015-16 the Department processed 16,513 pieces of treat official correspondence from members of the public. Of these, 67% of letters requiring a response were replied to within our target of fifteen working days.

5.27 The department's safety performance has remained strong during 2015-16. Overall accident rates are again low, with no enforcement action taken against the department. No accidents were reported to the Health and Safety Executive under Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR) in 2015-16 (none in 2014-15). The Reportable Accident Rate was calculated as 0 per 100,000 employees. A total of 10 accidents were reported by employees in 2015-16, against 13 in 2014-2015.

**Melanie Dawes CB** **4 July 2016**

**Accounting Officer**

**Department for Communities and Local Government**

# ACCOUNTABILITY REPORT

# Corporate Governance Report

## 6 Directors' Report

### Our Departmental Board

6.1 During 2015-16 the Department consisted of the core Department, one Executive Agency and ten other Arms Length Bodies (ALBs). Note 22 of the Accounts provide a full list of public bodies sponsored by the Department and identifies those that are consolidated into the accounts of the departmental Group ('the Group').

6.2 The Departmental Board, comprising of Ministers, Non-Executive Directors and the Executive Team, met three times in the year. The Board's role is to advise on and supervise five key areas: strategic clarity; commercial sense; talented people; results focus; and management information. The Department also has an 'Interim' Board which met seven times in 2015-16. The Interim Board is chaired by the Lead Non-Executive Director. It is attended by the Executive Team and Non-Executive Directors. Its role is to support the Board on the operational impacts and effectiveness of policy proposals.

6.3 Details of Ministers' areas of responsibility, the Department's Non-Executive Directors and the Executive Team can all be found at: https://www.gov.uk/government/organisations/department-for-communities-and-local-government

6.4 Information on significant interests held by board members which may conflict with their management responsibilities can be found in Note 20 Related Party Transactions in the accounts.

### Our Ministers

**The Rt Hon Greg Clark MP**

Secretary of State for Communities and Local Government and chair of the Departmental board

Attended all board meetings

**The Rt Hon Mark Francois MP**

Minister of State for Communities and Resilience

Attended 1of 3 board meetings

**Brandon Lewis MP**

Minister of State for Housing and Planning

Attended 2 of 3 board meetings

**Marcus Jones MP**

Parliamentary Under Secretary of State, Minister for Local Government

Attended 2 of 3 board meetings

**James Wharton MP**

Parliamentary Under Secretary of State, Minister for Local Growth and the Northern Powerhouse

Attended 2 of 3 board meetings

**Baroness Williams of Trafford**

Parliamentary Under Secretary of State (Lords)

Attended 1 of 3 board meetings

## Our Non-Executive Directors

**Sara Weller CBE**

Lead Non-Executive Director

Until December 2015

Attended 2 of 2 board meetings

**Andy Street**

Lead Non-Executive Director

From January 2016

Attended 1 of 1 board meetings

**Nick Markham**

Non-Executive Director

Attended 3 of 3 board meetings

**Grenville Turner**

Non-Executive Director

Attended 3 of 3 board meetings

## Our Executive Directors

**Melanie Dawes CB**

Permanent Secretary

Attended 3 of 3 board meetings

**Helen Edwards**
Director General, Local Government & Public Services

Attended 2 of 3 board meetings

**Peter Schofield**
Director General, Housing & Planning

Attended 3 of 3 board meetings

**Simon Ridley**
Director General, Decentralisation & Local Growth
From September 2015

Attended 2 of 2 board meetings

**Louise Casey CB**
Casey Review

Attended 1 of 3 board meetings

**Jacinda Humphry**
Finance Director

Attended 3 of 3 board meetings

**Christine Hewitt**
Director, People, Capability & Change
From October 2015

Attended 2 of 2 board meetings

**Stephen Meek**
Director, Strategy, Communications & Private Office Group
From November 2015

Attended 2 of 2 board meetings

6.5 Other Ministers who served in the Department during 2015-16 were:

- In September 2015 Richard Harrington MP was appointed Parliamentary Under Secretary of State jointly with Home Office, DCLG and DFID. However he is not member of the DCLG Board.
- Sir Eric Pickles – Secretary of State (until May 2015).
- Stephen Williams MP – Parliamentary under Secretary of State (until May 2015).
- Kris Hopkins MP - Parliamentary under Secretary of State (until May 2015).

- Penny Mordaunt MP - Parliamentary under Secretary of State (until May 2015).
- Lord Tariq Ahmad of Wimbledon - Parliamentary under Secretary of State (Lords) (until May 2015).

6.6 Other non-executive directors who served in the Department during 2015-16 were:

- Sara Weller CBE – Lead Non-Executive Director (until December 2015). Attended 2 of 2 board meetings.
- Stephen Hay – Non-Executive Director (until July 2015). Attended 1 of 1 board meetings.

6.7 Other executive directors who served in the Department during 2015-16 were:

- Andrew Campbell CB – Director General, Finance & Corporate Services Group (until July 2015). Attended 1 of 1 board meetings.
- David Hill – Director, Strategy, Communications & Private Office Group (until October 2015). Attended 1 of 1 board meetings.
- Dawn Brodrick CB – Director of People, Capability & Change (until September 2015). Attended 1 of 1 board meetings.

## Auditors

6.8 The core, agency and group accounts have been audited by the Comptroller and Auditor General (C&AG) under various statutes with the exception of the Leasehold Advisory Service (audited by MacIntyre Hudson). Further details are given in the accounts of the bodies concerned.

6.9 The total cost of the audit across the departmental Group is £795,000 of which £354,000 is a cash charge and £441,000 is a notional charge (2014-15: £351,500 cash costs and £475,000 notional charge totalling £826,500).

6.10 The audit fee for the core Department is £320,000 (2014-15: £350,000), broken down as £314,000 for the Departmental audit, and £6,000 for the cost of consolidation work. This includes £15,000 for the Departmental audit on Whole of Government Accounts.

6.11 In addition, the Department meets the costs of the Business Rates-related accounts. The fees are all notional charges and included in the Group Accounts. The fees on these audits are as follows:

- Main Rating Account: £38,000 (2014-15: £38,000)
- Levy Account: £7,000 (2014-15: £7,000)
- Trust Statement: £19,000 (2014-15: £19,000)

6.12 The NAO performed other statutory audit work, including value for money studies, and other reports to management at no cost to the Department.

## Personal Data Related Incidents

6.13 The Department, its Agency and Non Departmental Public Bodies (NDPBs) manage a range of data which relates to staff and citizens, most of which is used to support policy analysis and review and does not allow the identification of individuals. Procedures and processes are in place to protect information and data and to ensure it is only used for the purposes for which it was collected.

6.14 Four personal data incidents were reported to the Information Commissioners' office during the period 1st April 2015 to 31st March 2016. In all cases the ICO determined that no action was required of us, and we are not aware of any negative impact on individuals. Two cases related to Freedom of Information requests - one mistakenly contained details of properties containing asbestos, the other contained one person's name. The remaining cases were the result of papers being mislaid on public transport.

# 7 Statement of Accounting Officer's Responsibilities

7.1 Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed the Department for Communities and Local Government to prepare, for each financial year, consolidated accounts detailing the resources acquired, held or disposed of and the use of resources during the year by the Department (inclusive of its executive agency) and its sponsored non departmental and other arm's length public bodies designated by order made under the GRAA by Statutory Instrument 2015 number 632 (together known as the 'departmental Group', consisting of the Department and bodies listed in Note 22 to the accounts). The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department and the departmental Group and of the net resource outturn, application of resources, changes in taxpayers' equity and cash flows of the departmental Group for the financial year.

7.2 In preparing the accounts the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- Observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Ensure that the Department has in place appropriate and reliable systems and procedures to carry out the consolidation process;
- Make judgements and estimates on a reasonable basis including those judgements involved in consolidating the accounting information provided by non departmental and other arms length public bodies;
- State whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts; and
- Prepare the accounts on a going concern basis.

7.3 On 1 March 2015, HM Treasury appointed Melanie Dawes, the Permanent Head of the Department, as Accounting Officer of the Department for Communities and Local Government.

7.4 The Accounting Officer of the Department has also appointed the Chief Executives or equivalents of its sponsored non departmental and other arm's length public bodies as Accounting Officers of those bodies. The Accounting Officer of the Department is responsible for ensuring that appropriate systems and controls are in place to ensure that any grants that the Department makes to its sponsored bodies are applied for the purposes intended and that such expenditure and the other income and expenditure of the sponsored bodies are properly accounted for, for the purposes of consolidation within the accounts. Under their terms of appointment, the Accounting Officers of the sponsored bodies are accountable for the use, including the regularity and propriety, of the grants received and the other income and expenditure of their organisation.

7.5 The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the Department or sponsored body, are set out in Managing Public Money published by HM Treasury.

7.6 So far as the Accounting Officer is aware, there is no relevant audit information of which the external auditors are unaware. The Accounting Officer has taken all steps that she ought to have taken to make herself aware of any relevant audit information and to establish that the Department's auditors are aware of that information.

7.7 The Accounting Officer takes personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable. The Accounting Officer believes that this annual report and accounts as a whole is fair, balanced and understandable.

# 8 Governance Statement

*Introduction*

8.1 2015-16 has been a year of significant change for the Department. A new government, a new Secretary of State, changes to the non-executive team and implementing a change agenda within the Department have all contributed to the need to refresh how we manage risk and maintain governance.

8.2 This Governance Statement sets out:

- the Governance Framework of the Department and how the Department's Board and its supporting governance structures operate, including how I gain assurance over the Department's system of internal control and the operation of our Arms' Length Bodies;
- an evaluation of the effectiveness of these arrangements, and how they support my responsibilities as Accounting Officer;
- an overview of the local accountability systems which provide me with assurances on how the resources made available to devolved organisations are used properly;
- a summary of the strategic challenges faced by the Department and how these are being addressed; and
- an account of how the Board complies with the Corporate Governance Code, the quality of data used by the Board, and how the Board's performance is evaluated.

8.3 This Statement covers the whole Group, reflecting the governance arrangements of our Agency and NDPBs. Each of these organisations publishes their own Governance Statement as part of their Annual Reports and Accounts. Rather than duplicate information this Statement seeks to explain group-wide and core Department governance arrangements and any issues that are significant to the Group as a whole.

*The Governance Framework*

8.4 As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the delivery of the Department's policies, aims and objectives, whilst safeguarding public funds and departmental assets. The governance framework for the Department has been designed to preserve the existing internal control environment as well as refining internal controls as appropriate as the Department's risk profile evolves.

8.5 Attendance records for the Departmental Board meetings are provided in the Directors' Report.

| Committee | Chair | Attended by | Role |
|---|---|---|---|
| Departmental Board | Rt Hon Greg Clark (Secretary of State) | Ministers; Executive Team; Non-Executive Directors | • to advise and support Ministers on the operational impacts and effectiveness of policy proposals, focusing on getting policy translated into results<br>• met three times in 2015-16 |
| Interim Board | Andy Street (Lead Non-Executive Director) | Executive Team; Non-Executive Directors | • to support the Board on the operational impacts and effectiveness of policy proposals<br>• met seven times in 2015-16 |

| Committee | Chair | Attended by | Role |
|---|---|---|---|
| Audit and Risk Assurance Committee | Nick Markham (Non-Executive Director) | Permanent Secretary (as Accounting Officer for the Department); Finance Director; Director of Local Government Finance; Internal Audit; National Audit Office; Independent Members (x2) | • to support the Board and Accounting Officer in their responsibilities for risk, control and governance<br>• to assess and assure the department's overall risk management framework and for ensuring financial propriety<br>• to provide independent advice to the Board and Accounting Officer on the adequacy of audit arrangements<br>• met five times in 2015-16 |
| Nominations and Governance Committee | Grenville Turner (Non-Executive Director) | Permanent Secretary; Chair of the People Committee; Director of People, Capability and Change | • to support the Board with its responsibilities of ensuring there are satisfactory systems for identifying and developing leadership and high potential<br>• to scrutinise the incentive structure and succession planning for the Departmental Board and the senior leadership of DCLG<br>• met twice in 2015-16 |
| Executive Team | Melanie Dawes (Permanent Secretary) | Directors General; Finance Director; Director of People, Capability and Change; Director of Strategy, Communications and Private Office. | • to drive and manage the daily business of the department<br>• to review issues escalated to it and issuing instructions regarding them<br>• meets weekly<br>• delegates authority to the Finance Sub-Committee and the People Sub-Committee (see below) |
| Senior Pay, Performance and Talent Committee (sub-committee of Executive Team) | Melanie Dawes (Permanent Secretary) | Directors General; Non-Executive Director (x1); Director of People, Capability and Change.<br>*Attendees for certain items – Finance Director; Director of Strategy, Communications and Private Office* | • to oversee the performance and talent of the SCS, including overall resourcing, structures and succession planning<br>• met eight times in 2015/16<br>• also provides support to the Nominations and Governance Committee |
| Finance Sub-Committee (sub-committee of Executive Team) | Jacinda Humphry (Finance Director) | Finance DDs; Policy DDs | • delegated authority from Executive Team to ensure policy-making and operational areas maintain robust financial and management controls, and provide assurances to the Accounting Officer that decision-making in policy areas is financially defensible<br>• supported by the Investment Sub-Committee and the Credit Sub-Committee |
| People Sub-Committee (sub-committee of Executive Team) | Helen Edwards (Director General – Local Government and Public Services) | Director of People, Capability and Change; Policy DDs | • delegated authority from Executive Team to oversee the development and delivery of a business-focused People Plan, develop and subsequently approve the strategic direction and oversee delivery of the People Plan, and approve strategic direction of any people aspects of the next phase of Change programme |

*Local Accountability Systems*

8.6 In accordance with Managing Public Money, this Statement is required to summarise how the Department achieves local accountability for the grants it distributes.

8.7 The Department publishes two accountability system statements: the accountability system statement for local authorities and the accountability system statement for the Local Growth Fund[53].

8.8 The Department also provides funding via the “Single Pot” to mayoral combined authorities which have been set up as part of devolution agreements. The Single Pot represents different lines of funding from both the Department for Communities and Local Government and the Department for Transport. Assurances over the use of funding provided through the Single Pot are obtained via the accountability systems for both local authorities and the Local Growth Fund, and the Department for Transport accountability system[54].

*Local Authority Accountability System*

8.9 The accountability system statement for local authorities sets out the scope of my accountability in relation to ensuring the proper use of public money at a local government level and how I discharge my accountabilities to ensure the regularity, propriety and value for money of these resources through the local accountability system.

8.10 The most recent statement will be published alongside the Department’s Annual Report and Accounts in July 2016 on www.gov.uk. The new statement is updated to:

- reflect how, as Accounting Officer for the Department for Communities and Local Government, I receive assurance on how the core local government accountability framework is working;
- explain how the core local authority accountability framework applies in light of devolution deals in England (although it is recognised that further consideration will be needed as this policy and its implementation develops);
- incorporate the accountability system statement for the Greater London Authority and has removed the Fire and Rescue accountability system statement as this policy responsibility has now moved to the Home Office; and
- make it shorter and more accessible for the public to aid understanding of what local accountability is and how I oversee the system.

8.11 In addition to the core accountability system, other departments which oversee services run by local government publish statements that also explain any other grants made to local authorities, and relevant legislation and regulation in relation to those services, including Department for Education, Department of Health and Department for Transport.

8.12 As the Department’s Accounting Officer, I receive bi-annual assurance advice that takes account of the available evidence to ascertain whether the core accountability system for local authorities has remained robust over the last six months. For the 2015-16 reporting year, this assurance also extended to fire and rescue authorities. This evidence includes published information and consultancy reports on local audit and accounts, governance, and fraud which speaks to regularity, propriety and achieving value for money locally.

8.13 The latest assurance advice for the period June to December 2015 concluded that the local government accountability system operated effectively and remained robust. There is therefore no immediate need for any changes to the accountability system. The advice recommends that as Accounting Officer, I maintain a watching brief to ensure the system remains robust going forward. In particular, the Department needs to monitor:

- given the pressures of reduced funding, the potential risk of a few local authorities not being able to achieve balanced budgets and issuing section 114 notices in 2016/17 and 2017/18;
- the position of the local authorities we have assessed to be of most immediate risk showing the strongest indicators of financial and service delivery risk, and the support being provided to them;

[53] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/418079/bis-15-183-Accountability-systems-statement.pdf
[54] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/475107/dft-accounting-officer-system-statement_2015.pdf

- progress and risks relating to the Department's ongoing interventions at Tower Hamlets, Rotherham and Birmingham; and

8.14 Partly in response to a Public Accounts Committee Report published last year on Financial Sustainability of Local Authorities which recommended that the Department "adopts a targeted approach to monitoring more closely the financial sustainability of individual local authorities deemed to be at high risk", the Department has developed a more systematic approach to collect and analyse a range of information to identify individual local authorities that have the strongest indicators of immediate risk around financial resilience and service delivery. I chair quarterly risk analysis meetings which includes discussion of that analysis.

*Local Growth Fund Accountability System*

8.15 The accountability system statement for the Local Growth Fund sets out the make-up of that fund and how it is allocated, what my responsibilities, as Accounting Officer, are for overseeing that system, and the accountability structures and processes that make up the Local Growth Fund system to ensure that funds are spent with propriety, regularity and value for money. The most recent statement will be published alongside the Department's Annual Report and Accounts in July 2016 on www.gov.uk.

*Financial and Credit Risk*

8.16 The Department operates a number of programmes that are underpinned by the use of financial instruments such as loans, equity investments and financial guarantees. This exposes the Department to significant financial and credit risk (risks that may be affected by the result of the EU referendum). The Department, in conjunction with the HCA, has continued to implement a risk management framework to manage its portfolio of financial instruments, which allows the Department to identify measure, mitigate and manage the financial risks to which it is exposed.

8.17 The Department has an immature portfolio of financial instruments which is typically outside the appetite of other market investors and lenders. The portfolio is concentrated in a single sector and susceptible to economic shocks. There is limited experience of how a market downturn would impact upon the portfolio, as well as a lack of historical data on arrears and defaults.

8.18 To assess and manage these financial risks, the Department has established a Financial Risk Management Team and developed a risk appetite statement for financial instruments, which sets a number of specific thresholds and guidelines for the different financial risks that have been identified. This financial risk appetite statement complements the overall departmental risk appetite statement and is primarily a portfolio management tool. Specific credit policies are being developed to sit below this document, which specify the minimum controls and requirements for our management of credit risk. These will enhance how we protect the Department's financial position at both individual project and client level exposure.

8.19 The Department's capability for managing financial risk has continued to evolve during the year. New programmes are now established with specified risk parameters to more effectively manage the Department's exposure at an operational level; management information at a programme/portfolio level is reviewed on a frequent and regular basis; cross Government processes are being put in place to further strengthen due diligence at a counterparty level; and control documentation is being developed to link the Department's priorities to the principles outlined in the Department's risk appetite statement and policies.

8.20 The Department has also conducted financial risk assessments for all live programmes and for future programmes announced as part of the 2015 Spending Review. Overall, the Department's credit risk profile has improved over the past year due to the improved creditworthiness of its counterparties, better quality of collateral and loan repayments.

8.21 Despite the Department's response to the increased level of financial and credit risk, there remains a residual risk of impairment to the Department's financial assets which cannot be mitigated. To address this, the Financial Risk Management team, in conjunction with the relevant HCA and departmental teams, has undertaken preliminary stress testing of individual programmes, which are in the process of being consolidated. In 2016, the Department will further refine its stress testing approach model and establish plans for recovery and resolution during a period of economic stress. As part of this, the Department will be engaging with Ministers and HM Treasury to agree steps that could be taken to manage the Department's exposures in times of stress.

*Governance Assurance Exercise*

8.22 In order to gain assurances over the internal control environment, the Department undertakes an annual governance assurance exercise at the end of each financial year.

8.23 This year the governance assurance exercise was reviewed and refreshed to redirect the Department's focus towards our Ministers' four priority areas: Housing Supply and Home Ownership; Supporting Growth and Devolution; Public Services; and Corporate Services. The revised process involves Directors presenting a concise return highlighting the strategic challenges and how these challenges are being addressed. The returns are supplemented by an independent review of each directorate with input from Finance and Strategy teams. Further support has also been provided to challenge panel members in order to direct questioning towards the self-assessment, financial review, strategic challenges, budget management and delivery of the priority areas.

8.24 The panels were held in April and were chaired by Departmental Non-Executive Directors, attended by an independent member of the Audit and Risk Assurance Committee (ARAC), Internal Audit and Independent Directors, and observed by the NAO. The panels focused on the key issues in the four identified areas; providing challenge and testing the Director Generals on their risk management and broader Strategic overview. The panel was satisfied that the Department had demonstrated good assurance across its business, with strengthening links to the Corporate Risk Management process. They were further assured that the Department had suitable plans in place to continue to manage the business and address the risk areas that were identified by the Department as part of the challenge process these included Local Authority Sustainability, Capacity and Capability and effective programme management. Actions identified for 2016-17 will be specifically tested at the next Governance Assurance Exercise.

*Arms' Length Bodies*

8.25 The Department continues to integrate its Arm's Length Bodies into the Departmental governance framework to maintain a consistent approach to delivering its objectives across the departmental Group. This has been achieved through the following methods:

- The Finance Directors for HCA and the Planning Inspectorate attend the Department Finance Sub-Committee.
- The Chair of the HCA ARAC is an independent member of the Department ARAC.
- A biannual meeting of ARAC Chairs in which concerns affecting the departmental Group are raised and discussed.
- Attendance at Arm's Length Bodies' ARACs by a representative of the Department's Arm's Length Body Sponsorship team.

8.26 These closer working relationships have contributed to successfully integrating Arm's Length Bodies into a coherent and consistent departmental approach to financial planning, risk management and decision making.

8.27 In 2014-15, sponsorship of the Department's Arm's Length Bodies was segregated into two teams: a team which sat within the Housing directorate which oversaw sponsorship of the HCA; and a centralised team within the Finance directorate which oversaw sponsorship for the remaining Arm's Length Bodies. In 2015-16, these functions were merged into a single division within the Finance directorate to ensure greater consistency across the departmental Group. The role of the Sponsorship Division is to provide support and challenge to Arm's Length Bodies, ensuring that they adhere to their individual Framework Documents, various delegations including budget delegations and annual pay remits, Managing Public Money, and Cabinet Office Spending Controls.

8.28 As at 31 March 2016, the Department had one Executive Agency and ten other Arm's Length Bodies. This included the Department's newest Arm's Length Body, the Ebbsfleet Development Corporation, which was formed in April 2015. A complete list of the Department's Arm's Length Bodies is provided in Note 22 of the accounts.

8.29 Each Arm's Length Body has delegated authority from the Department's Accounting Officer, and as such has its own Accounting Officer. There are regular meetings between the Department's Accounting Officer and the Accounting Officers of PINS and the HCA to help ensure that they are operating within both their delegations and framework documents.

8.30 The Sponsorship Division works with the Arm's Length Bodies to identify and monitor the risks that directly impact on the Department via a Sponsorship Risk Register. Risks and mitigations are reviewed regularly by the team, to ensure that Arm's Length Bodies are delivering their objectives in line with departmental expectations and are operating within their budget allocations. In the event that an Arm's Length Body is unable to manage its financial or operational performance effectively, appropriate actions are taken by the Sponsorship Division to resolve the issue.

*Accountability*

8.31 Alongside the Board structures set out above, Ministers and the Permanent Secretary have clearly defined responsibilities that support good governance within the Department through Parliamentary accountability. The Secretary of State is responsible and answerable to Parliament for the exercise of the powers on which the administration of the Department depends. He has a duty to Parliament to account, and to be held to account, for the policies, decisions and actions of the Group.

8.32 As Permanent Secretary, I am appointed by HM Treasury as the Department's Accounting Officer and may be called to account in Parliament for the stewardship of the resources within the Department's control and the system of accountability for funding devolved to the local level.

8.33 Ministers are also subject to the Ministerial Code which provides assurance as to their propriety of their conduct. Upon appointment, Ministers' attention is drawn to the requirements of the Ministerial Code. As Permanent Secretary, I am responsible for advising Ministers on compliance with the Code.

8.34 During 2015-16, no Ministerial directions were made.

*Corporate Governance Code*

8.35 The Corporate Governance Code requires departments to put in place arrangements to handle conflicts of interest of Board Members, and to use the Governance Statement to explain how conflicts (and potential conflicts) of interest are resolved. As set out in their contract, each Non-Executive Director is required to declare to the Secretary of State any personal or business interest which may (or may be perceived) to influence their judgement in performing their functions and obligations. They are also responsible for withdrawing from any discussions where any conflict of interest could influence their judgement. A register of interests is maintained by the Permanent Secretary's office.

8.36 Departments are expected to apply the principles of the Corporate Governance Code unless good governance can be achieved by other means. Departments are also required to identify and explain any areas where they have departed from the Code. The Department for Communities and Local Government is fully compliant with the Code and is subject to regular review by the Board Secretary.

*Information Security*

8.37 The Department ensures that appropriate policies and guidance are in place to assure compliance with Cabinet Office mandates on electronic and physical data security. This includes regular inspections by the Department's security team.

8.38 The Department has successfully implemented a public cloud applications hosting solution and as part of our IT strategy we have implemented four new business applications and migrated two legacy systems to this more flexible, responsive and value for money solution.

8.39 During the year four personal data incidents were reported to the Information Commissioner's Office. In each case it was determined that no further action was required. Further information on these incidents is provided on page 32.

*Board Performance and Reporting*

8.40 The Code of Practice on Corporate Governance states that the Lead Non-Executive in each Department should support the Chair to ensure that a Board effectiveness evaluation is carried out annually, and that carrying out such an evaluation is good practice. Given the number of changes at DCLG over the past year, with a new Secretary of State, Permanent Secretary and Lead Non-Executive Director, the decision was taken not to run a Board Effectiveness Evaluation in 2015-16; the next assessment will therefore take place in March 2017. To ensure it was as effective as possible going forward, the Board held discussions regarding its purpose and ways of working. The actions from of last year's light touch Board Evaluation were completed successfully.

8.41 In previous years the Board's two sub-committees reported to the Board via a short paragraph included in the written Corporate Performance Report. In light of the changes in Government and departmental priorities that have taken place during the year, the Department reviewed the way in which it reported on performance. As a result of the review, it was determined that the previous written performance report should be replaced by an interactive dashboard that focuses on the Secretary of State's priorities. In lieu of the written report, the Chairs of the two sub-committees provided verbal updates to the Interim Board when it met in 2015, and in March 2016 the Board agreed that it will receive written reports by correspondence from the Chair of each sub-committee after each meeting.

8.42 Our newly established Implementation Unit drives the delivery of our priorities and provides regular quantitative and qualitative reporting to the Executive Team and Board to aid decision-making. This includes regular assessment of risks to programmes and ensures timely action. We have also established a clear reporting system on action against all commitments in the Single Departmental Plan.

8.43 The Board has a standing performance data agenda item at each meeting which assesses performance against the departmental priorities. Data is presented to the Board in the form of an interactive dashboard which allows Board members to drill into more detailed data. The data provided directs Board members to specific areas of interests and facilitates challenging and relevant discussions. In addition to this data, the Board and Executive Team receive regular information on corporate performance, including key performance indicators around finance, human resources, correspondence, Parliamentary Questions and Freedom of Information requests.

*Whistleblowing*

8.44 The Department continues to ensure its whistleblowing policy and procedures are clear and up to date to encourage staff to report wrongdoing in the Department. The NDPBs have implemented the whistleblowing policy specifically designed by the Civil Service Employee Policy while ensuring clear reporting procedures in place.

8.45 In March this year, the Department adopted the new toolkit for Nominated Officers and the Public Interest Disclosure Act 1998 guidance for Nominated Officers, to support them in their roles.

8.46 The Department regularly reports on the effectiveness of whistleblowing policy and procedures along with quantitative data to the Cabinet Office. The latest return in February included one whistleblowing concern which was raised and resolved within the Planning Inspectorate. In March, the Department was made aware of a further case in the Homes and Communities Agency.

*Risk*

8.47 During the year the Department's approach to corporate risk management has been refreshed as the organisation redirects its focus onto new priorities. The previous approach focussed on programme-related risk and relied upon specific risks being escalated from directorate risk registers.

8.48 A revised approach to risk management has therefore been developed that focus on the strategic challenges faced by the Department as a whole. These are owned by the Executive Team. In addition, individual programme risks may be escalated from directors to the Executive Team. This is supported by an Assurance Framework which underpins the monitoring and management of risk by way of the three lines of defence model.

8.49 As part of the change in the Department's approach to risk, we are also reviewing the way in which we assess our risk appetite. It is neither possible nor desirable to set a single risk appetite for the Department, as the appetite will vary depending on the situation and type of risk. In cases where it becomes apparent that the risks being taken are not aligned to the desired appetite for a particular risk area, the approach being taken should be re-examined in order to determine whether the level of risk being taken needs to be reassessed, or the Department's appetite needs to be reviewed.

**1st line: Business areas**

- Policy and Programme project management
- MI and Financial control
- Transactional controls
- Business Partner oversight and challenge
- Impact assessments and business cases

**2nd line: Corporate Oversight**

- Single Departmental Plan
- Executive Team oversight
- Finance Sub-Committee and People Sub-Committee
- Governance Assurance Exercise

**3rd line: Independent Assurance**

- Internal Audit
- External Programme Review

8.50 Specific risks are managed via the day to day delivery of the Department's policies and programmes. Programme Boards are in place for each of the Department's major policies, in which programme delivery and cross-cutting risks are subject to review. Where necessary, risks are escalated from the Programme Boards to the Executive Team and included in the Corporate Risk Register.

8.51 A summary of the risk areas faced by the Department is outlined below.

| Risk area | Risk owner(s) | Challenge |
|---|---|---|
| Programme delivery and operational effectiveness | Director General – Housing and Planning;<br><br>Director General – Decentralisation and Growth;<br><br>Director – Strategy, Communication, Private Office; | The Department has a portfolio of big policy challenges and complex delivery programmes, including driving up housing supply through our commitment to deliver one million new homes, increasing home ownership through the Help to Buy and extended Right to Buy schemes, and devolving powers to regions to boost local growth. We have refreshed our governance across the Department to reflect the balance of our new priorities and ensure appropriate levels of timely risk escalation.<br><br>We have introduced a programme of delivery planning for all our programmes and commitments. This has involved agreeing clear metrics for success, a commitment to milestones and a shared understanding of delivery risks and mitigations.<br><br>For our key programmes, we have developed delivery plans which are being tested through a Director-led Gateway challenge panel of delivery, analytical, HR and Finance colleagues, and peer review. Plans are then being signed off by the Executive Team and Ministers.<br><br>Alongside this, we have adopted a stronger approach to programme management and reporting, led by our new Implementation Unit. Based on the Cabinet Office approach, this provides Ministers, the Board and Executive Team with an independent assessment of the delivery of our key programmes and objectives. Using quantitative and qualitative measures, this new reporting is enabling early identification of delivery risks and ensuring action is taken.<br><br>The Department has been given a wide range of discrete policy targets that depend upon factors that are not entirely within the Department's control such as the state of the economy, the actions of private sector developers and the engagement and support of local politicians. The Department acknowledges, manages and mitigates against risks to deliver these policy targets. |
| Professional capability and skills | Director – People, Capability and Change | To ensure the organisation has the right capabilities, skills and culture to deliver its priorities through its new operating model, the Department needs to have the right balance between retaining and developing those in our current workforce who have the skills, attitudes and behaviours we need in the future, and attract new people into the Department where we have a capability gap/shortage.<br><br>The Department champions and rewards good performance. We are clear on expectations to our staff and our managers have the skills and confidence to deal effectively with under performance.<br><br>Organisational change brings with it risks to resilience across the Department. To manage this risk the Department has secured a programme of training for leadership resilience and is focusing its learning and development interventions on building capability and core skills, talent management, and diversity; as well as ongoing development of staff in professions.<br><br>The Department has also invested in Diversity and Inclusivity training with a programme of face-to-face Unconscious Bias training for all Line Managers and Mental Health Awareness training which has resulted in over 80 staff attending the 2-day Mental Health First Aid (MHFA) workshop and a further 200 attending half-day Mental Health and Wellbeing workshops. |

| Risk area | Risk owner(s) | Challenge |
|---|---|---|
| Change portfolio management | Director – Strategy, Communication and Private Office;<br><br>Director – People, Capability and Change | The outcome of the Spending Review confirmed our central role in delivering the government's agenda with housing and local growth, the settlement for local government and funding for Troubled Families, homelessness, and community integration all among the headlines. We will need to deliver these priorities with reduced administration costs. In the summer of 2015, we ran a series of conversations involving people across the Department to get their views on what the Department should aspire to in terms of its values, ways of working and culture. In November, having listened to the feedback from those conversations, the Executive Team launched DCLG's new Vision, to enable it to deliver on its priorities, and to become an even stronger and better place to work.<br><br>We have been undertaking an organisational design process to help us work out the changes we need to make to deliver on the Vision, so that we are well placed to deliver our settlement, with plans for the size and structure of the department, and for different ways of working to ensure we can deliver with less. A business planning round has determined our work programme and resourcing for 2016-17, including the size, shape and skills mix of the teams we need – and has given us an outline plan for the years after that. It will also help shape our People Plan, which we will launch later in the summer, and which will set out the steps we will take to create the workforce we need for the future. |
| Local Authority system sustainability | Director General – Local Government and Public Services | As local authorities are under a statutory obligation to set a balanced budget and the Department monitors the financial and operational performance of the sector. The challenge faced by the Department is to ensure that the Accounting Officer and Ministers are provided with timely and regular advice on whether any authorities are deemed to be at risk. This will allow the DCLG AO to consider if the core accountability system is working and advise Ministers on any appropriate action, including where the sector can offer support.<br><br>We are seeking to identify these authorities by maintaining and developing our existing processes for assessing the risk of significant financial and service challenges by making better use of the data we collect and the intelligence we can access to provide a more robust view of councils' situations, thereby enabling us to identify potential indictors of stress.<br><br>We are also providing opportunities for local authorities to become more autonomous through devolution deals and flexibilities in how councils allocate receipts generated from council tax, as well as considering how our powers of intervention can be used in an effective and sustainable manner. |

| Risk area | Risk owner(s) | Challenge |
|---|---|---|
| Balancing the books | Finance Director;<br><br>Director General – Housing and Planning | The Department secured sufficient resources from the Spending Review to manage the aspirations and commitments of Ministers. Resources are tight and in terms of Resource Programme budgets and Departmental Administration follow a declining profile over the years 2016/17 to 2019/20. It was a deliberate strategy to not hold large standing contingency budgets for the Spending Review period.<br><br>In terms of Capital budgets the main risks are around the large amounts of income the Department needs to generate to underpin the Capital budget. This mostly arises from financial transactions and the Public Sector Land programme. The Department has a credit risk framework to support this that is referred to above.<br><br>The Department must continue to deliver its priorities while remaining within its control totals, and will enhance the quality of the associated financial reporting that enables us to manage those risks.<br><br>The Department has managed the financial position well, underspending against all major control totals in 2015/16. The Department secured additional resources through the Supplementary Estimate to reflect the cross Government response to flooding.<br><br>Reporting accuracy during the year has improved with minimal movements against the forecast Month 11 position. The department has undergone a detailed prioritisation process with Ministerial engagement to allocate resources for 2016/17 and future years of the Spending Review. |
| Legal challenges | Director General – Decentralisation and Growth; | The legal risks faced by the Department relate to instances where the Department has acted unlawfully or, in the case of the ERDF, where unsound decisions have been made which have led to irrecoverable funds, the interruption of a programme, or fines from the European Commission.<br><br>These risks are best managed by designing legally robust policies, ensuring that the right advice is sought at the right time to inform legally sound decisions, and (where appropriate) changing the law in the right way to deliver policy. Successful mitigation of these risks requires input from lawyers and an ambitious policy programme.<br><br>The Department is working to mitigate and manage these risks through representation from Legal at the Executive Team where appropriate and at programme and project board meetings; the establishment of a Legislation Board to prioritise and manage the primary and secondary legislation programme; improving the quality of instructions to legal advisers; increasing the capacity of legal advisers to meet demand through the improved use of online resources; and continuously learning, challenging existing processes and applying lessons learnt. |

8.52 Going forwards the Department will also be considering risks that emerge as a result of the referendum result to leave the EU.

### *External Scrutiny*

8.53 For 2015/16, internal audit was provided by the Government Internal Audit Agency. Based on ongoing engagement with the Department and the delivery of an agreed programme of work, the internal audit annual opinion is classified as ‘moderate’. This means that whilst the underlying system of internal control was found to be sound, some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control. It is positive that core controls were operating effectively most areas reviewed. The majority of individual pieces of work undertaken by internal audit were rated either substantial or moderate in assurance with only three reviews reporting limited assurance ratings. These related to Crown Premises Fire Inspection Group (subsequently transferred to Home Office), Local

Government Grant Calculation IT and Financial Instruments work, all areas where the Department is taking action to address. As part of our work, five high priority actions were agreed with the Department. Internal Audit will monitor implementation of these and will test their effectiveness as part of the 2016/17 audit programme.

8.54 During the reporting period the NAO published eight reports directly relating to the Department: the Disposal of Public Land for New Homes; Devolving responsibilities to cities in England: Wave 1 City Deals; Local Government New Burdens; Financial Sustainability of Fire and Rescue Services; Impact of Funding Reductions on Fire and Rescue Authorities; Local Welfare Provision; Personalised commissioning in adult social care; and Local Enterprise Partnerships. These reports are available on the NAO's website. The Department is taking forward recommendations across all of these reports, with the exception of the reports pertaining to Fire and Rescue Authorities which are now being addressed by the Home Office who have had responsibility for Fire Policy from 1st April 2016.

8.55 In addition to these reports, the Department contributed to a number of cross-Government NAO reports, including: Training New Teachers; Delivering Major Projects in Government; the Investigation into the Acceptance of Gifts and Hospitality; the Use of Consultants and Temporary Staff; Central Government Staff Costs; Choice of Finance; Funding for Disadvantaged Pupils; Accountability to Parliament for Taxpayers' Money; and Companies in Government. The Department also contributed to an impact study on Managing Reductions in Local Authority Government Funding, and an NAO Overview study of the HCA's use of recoverable investments.

8.56 There were four published PAC reports during the reporting period relating to the Department as a result of a PAC hearing: Public Sector Land (published 24 September 2015); City Deals (published 11 November 2015); Care Act first-phase reforms and Local Authority new burdens (published 2 December 2015); and Financial Sustainability of the Fire Service (published 16 February 2016). The Government has formally responded via a Treasury Minute to the recommendations in these reports.

### *Conclusion*

8.57 The Accounting Officer reviewed the evidence provided to her by the governance assurance exercise, the Internal Audit opinion provided by the GIAA, and NAO and PAC reports, and was satisfied that the Department has maintained a sound system of internal control during this reporting period.

8.58 Though the Department has undergone significant transformation, the governance framework and control environment has been fully operational throughout the reporting period and up to the date on which the consolidated Annual Report and Accounts were approved. Existing assurance and risk management processes have been adapted and refreshed to reflect the challenges faced by the Department which has enabled it to continue to deliver a range of innovative policies and programmes which are at the forefront of the Government's agenda.

# Remuneration and Staff Report

## 9 Remuneration Report[55]

### Remuneration Policy

9.1 The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries. The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found at: www.ome.uk.com

### Service contracts

9.2 The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioner can be found at: www.civilservicecommission.org.uk

### Remuneration (including salary) and pension entitlements (subject to audit)

9.3 The following sections provide details of the remuneration and pension interests of the ministers and most senior management (i.e. Board members) of the Department and are subject to audit.

[55] The Remuneration Report refers to the core Department only. Similar Remuneration Reports are available in the Annual Reports and Accounts of the individual ALBs.

Single total figure of remuneration (subject to audit)

| Ministers | Salary £ | | Full year Equivalent £ | | Benefits in kind £ (to nearest £100) | | Pension benefits (1) £ (to nearest £1000) | | Total £ (to nearest £1,000) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015-16 | 2014-15 | 2015-16 | 2014-15 | 2015-16 | 2014-15 | 2015-16 | 2014-15 | 2015-16 | 2014-15 |
| The Rt Hon Greg Clark MP Appointed 12th May 2015 | 59,884 | - | 67,505 | - | - | - | 25,000 | - | 85,000 | - |
| The Rt Hon Mark Francois MP Appointed 12th May 2015 | 28,103 | - | 31,680 | - | - | - | 15,000 | - | 43,000 | - |
| Brandon Lewis MP | 31,680 | 29,004 | - | - | - | - | 12,000 | 10,000 | 44,000 | 39,000 |
| Marcus Jones MP Appointed 12th May 2015 | 19,849 | - | 22,375 | - | - | - | 5,000 | - | 25,000 | - |
| James Wharton MP Appointed 12th May 2015 | 19,849 | - | 22,375 | - | - | - | 5,000 | - | 25,000 | - |
| Baroness Williams of Trafford Appointed 12th May 2015 | 93,213(2) | - | 105,076(2) | - | - | - | 20,000 | - | 113,000 | - |
| The Rt Hon Eric Pickles MP Left 11th May 2015 | 7,622 | 67,505 | 67,505 | - | - | - | 3,000 | 22,000 | 11,000 | 90,000 |
| Kris Hopkins MP Left 11th May 2015 | 2,526 | 22,375 | 22,375 | - | - | - | 1,000 | 8,000 | 4,000 | 30,000 |
| Stephen Williams MP Left 8th May 2015 | 2,346 | 22,375 | 22,375 | - | - | - | 1,000 | 8,000 | 3,000 | 30,000 |
| Lord Ahmad of Wimbledon Appointed 15 July 2014 Left 13th May 2015 | 8,182(2) | 68,339(2) | 72,470(2) | 72,470(2) | - | - | 2,000 | 12,000 | 10,000 | 80,000 |
| Penny Mordaunt MP Appointed 15th July 2014 Left 11th May 2015 | 2,526 | 15,939 | 22,375 | 22,375 | - | - | 1,000 | 6,000 | 4,000 | 22,000 |
| Baroness Stowell of Beeston MBE Left 14th July 2014 | - | 20,845(2) | - | 72,470(2) | - | - | - | 5,000 | - | 26,000 |
| Nick Boles MP Left 13th July 2014 | - | 6,376 | - | 22,375 | - | - | - | - | - | 6,000 |

(1) The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

(2) Figure quoted includes House of Lords Allowance.

Richard Harrington was appointed 14th September 2015 as joint minister to Department for Communities and Local Government, Home Office and Department for International Development. He is on Home Office's payroll and therefore is not included in this table.

Please see paragraphs 9.4 to 9.6 regarding the salaries of Ministers

Single total figure of remuneration (subject to audit)

| Officials | Salary £'000 | | Full year Equivalent £'000 | | Bonus Payments £'000 | | Benefits in kind £ (to nearest £100) | | Pension benefits (1) £ (to nearest £1000) | | Total £'000 (to nearest £1000) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2015-16 | 2014-15 | 2015-16 | 2014-15 | 2015-16 | 2014-15 | 2015-16 | 2014-15 | 2015-16 | 2014-15 | 2015-16 | 2014-15 |
| Melanie Dawes<br>Permanent Secretary<br>Appointed 1st March 2015 | 160-164 | 10-14 | - | 160-164 | - | - | - | - | 188,000 | 19,000 | 345-350 | 30-35 |
| Sir Bob Kerslake<br>Permanent Secretary<br>Left 28th February 2015 | - | 185-189 (2) | - | 190-194 (2) | - | - | - | 5,600(*) | - | 74,000 | - | 265-270(*) |
| Peter Schofield<br>Director General | 135-139 | 130-134 | - | - | 15-19 | 5-9 | - | - | 67,000 | 23,000 | 215-220 | 165-170 |
| Helen Edwards<br>Director General | 165-169 | 165-169 | - | - | - | - | - | - | 54,000 | 49,000 | 215-220 | 210-215 |
| Louise Casey<br>Director General | 135-139 | 130-134 | - | - | - | - | - | - | 89,000 | 43,000 | 225-230 | 175-180 |
| Simon Ridley<br>Director General<br>Appointed 21st September 2015 | 65-69 | - | 115-119 | - | - | - | - | - | 32,000 | - | 95-100 | - |
| Andrew Campbell<br>Acting Director General<br>Left 31st July 2015 | 35-39 | 105-109 | 105-109 | - | - | - | - | - | 12,000 | 41,000 | 45-50 | 145-150 |
| Stephen Meek<br>Director<br>Appointed 9th November 2015 | 45-49 | - | 110-114 | - | - | - | - | - | 23,000 | - | 65-70 | |
| David Hill<br>Director<br>Left 28th October 2015 | 50-54 | 85-89 | 85-89 | - | 10-14 | - | - | - | 27,000 | 38,000 | 90-95 | 120-125 |
| Jacinda Humphry<br>Director<br>Appointed 1st April 2015 | 100-104 | - | - | - | 10-14 | - | - | - | 46,000 | - | 160-165 | - |
| Christine Hewitt<br>Director<br>Appointed 12th October 2015 | 40-44 | - | 85-89 | - | - | - | - | - | 20,000 | - | 60-65 | - |
| Dawn Brodrick<br>Director<br>Appointed to Director 2nd March 2015<br>Left 28th September 2015 | 45-49 | 5-9 | 100-104 | 95-99 | 10-14 | - | - | - | 21,000 | 2,000 | 80-85 | 5-10 |
| David Rossington<br>Director<br>Left 31st March 2015 | - | 110-114 | - | - | - | - | - | - | - | 55,000 | - | 165-170 |

Note: Bandings above are in the format: £ 0-£4,999, £ 5,000-£9,999, £10,000-£14,999, £15,000-£19,999

(1) The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

(2) The figure includes £18k (£20k is the full year equivalent) allowance as Head of Civil Service which Sir Bob continued to receive up until 28 February 2015, despite stepping down as Head of Civil Service in August 2014. This was approved by the Cabinet Office in recognition of the fact that he undertook a wider role on local growth deals and Birmingham in the interim.

* Sir Bob Kerslake's benefit in kind for 2014-15 has been restated so that it accords with the taxable benefit calculation for company car and fuel benefit charges as prescribed by HM Revenue and Customs. The change reflects the fact that Sir Bob's benefit was only for home to office travel (as permitted by the Civil Service Management Code) and not for private use for the remainder of the day. The amount for 2014-15 has been reduced from £36,300. The Department intends to recover the difference from HMRC.

## *Salary*

9.4 'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; and any other allowance to the extent that it is subject to UK taxation.

9.5 This report is based on accrued payments made by the Department, and thus recorded in these accounts. In respect of Ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration. Their salaries for services as MP (£67,060 from 1 April 2014, £74,000 from 8 May 2015) and various allowances to which they are entitled are borne centrally.

9.6 The arrangement for Ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their Ministerial salaries. This total remuneration for Lord Ahmad, Baroness Williams and Baroness Stowell as well as any allowances to which they were entitled, is paid by the Department and is, therefore, shown in full, in the figures within the Ministers' remuneration table above.

9.7 The Non-Executive Directors (NEDs) did not receive a salary in their capacity as Board Members and details of fees paid to them during 2015-16 are shown below (subject to audit):

| | Fees (£) | |
|---|---|---|
| Non-Executive Directors | 2015-16 | 2014-15 |
| Andy Street[(1)] (Lead)<br>Appointed 1st January 2016 | - | - |
| Nick Markham | 15,000 | 11,667[(4)] |
| Grenville Turner | 15,000 | 15,000 |
| Stephen Hay<br>Left 31st July 2015 | 3,333[(2)] | 10,000 |
| Sara Weller (Lead)<br>Left 31st December 2015 | 15,000[(3)] | 20,000 |

(1) Andy Street was appointed in January 2016. However, he did not claim any fees.

(2) Stephen Hay left at end of his contract on 31 July 2015. The figure quoted is for the period 1 April to 31 July 2015. The full year fee entitlement is £10,000.

(3) Figure quoted is for the period 1 April to 31 December 2015 The full year fee entitilement is £20,000

(4) Figure quoted is for the period 1 April to 30 November 2014 at £10k per annum and for 1 December 2014 to 31 March 2015 at £15k per annum.

### *Benefits in Kind*

9.8 The monetary value of benefits in kind covers any benefits provided by the Department and treated by HM Revenue and Customs as a taxable emolument. In 2014-15 Sir Bob Kerslake, as Head of Civil Service, had the use of an allocated car in the circumstances permitted by the Civil Service Management Code.

### *Bonuses*

9.9 Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year prior to the financial year that they are paid to the individual. The bonuses reported in 2015-16 relate to performance in 2014-15 and the comparative bonuses reported for 2014-15 relate to the performance in 2013-14.

## *Fair Pay Disclosure (subject to audit)*

9.10 Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

9.11 The banded remuneration of the highest paid director in the Department, the Director General for Local Government and Public Services, in the financial year 2015-16 was £165k - £169k (2014-15 highest paid director: £170k - £174k). This was 4.2 times (2014-15: 4.4 times) the median remuneration of the workforce, which was £38,529 (2014-15: £39,121).

9.12 Remuneration ranged from £20k - £24k to £165k - £169k (2014-15: £15k - £19k to £170k - £174k). Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

9.13 The median salary for 2015-16 has decreased by £592 compared to the 2014-15 median salary. This decrease is due to staff turnover and the appointment of new staff on pay band minima.

*Ministerial Pension benefits (subject to audit)*

| | Accrued pension at age 65 as at 31/03/16 | Real increase in pension at age 65 | CETV at 31/03/16 | CETV at 31/03/15(1) | Real increase in CETV |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| The Rt Hon Greg Clark MP | 5-10 | 0-2.5 | 75 | 55 | 12 |
| The Rt Hon Mark Francois MP | 0-5 | 0-2.5 | 60 | 47 | 9 |
| Brandon Lewis MP | 0-5 | 0-2.5 | 28 | 20 | 5 |
| Marcus Jones MP | 0-5 | 0-2.5 | 3 | - | 1 |
| James Wharton MP | 0-5 | 0-2.5 | 3 | - | 1 |
| Baroness Williams of Trafford | 0-5 | 0-2.5 | 35 | 19 | 9 |
| The Rt Hon Eric Pickles MP | 5-10 | 0-2.5 | 161 | 153 | 3 |
| Kris Hopkins MP | 0-5 | 0-2.5 | 13 | 12 | 1 |
| Stephen Williams MP | 0-5 | 0-2.5 | 12 | 12 | - |
| Lord Ahmad of Wimbledon | 0-5 | 0-2.5 | 24 | 22 | 1 |
| Penny Mordaunt MP | 0-5 | 0-2.5 | 5 | 5 | - |

(1) CETV in 2015 does not match CETV in 2015 figure from last year. This is due to the change in transfer factors used by the PCPF . The factors were changed in March 2016 following updated guidance from HM Treasury which sets the financial assumptions to use to calculate CETVs from PCPF.

Richard Harrington was appointed 14th September 2015 as joint minister to Department for Communities and Local Government, Home Office and Department for International Development. He is on Home Office's payroll and therefore is not included in this table.

9.14 Pension benefits for ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is made under statute and the rules are set out in the Ministers' etc. Pension Scheme 2015, available at https://www.mypcpfpension.co.uk/docs/librariesprovider4/care-docs/ministers/pcpf-ministerial-scheme-final-rules-2014-12-17.pdf?sfvrsn=6

9.15 Those ministers who are Members of Parliament (MPs) may also accrue an MP's pension under the PCPF (details of which are not included in this report). A new MP's pension scheme was introduced from May 2015, although members who were aged 55 or older on 1st April 2013 have transitional protection to remain in the previous final salary pension scheme.

9.16 Benefits for Ministers are payable from State Pension age under the 2015 scheme. Pensions are re-valued annually in line with Pensions Increase legislation both before and after retirement. The contribution rate from May 2015 is 11.1% and the accrual rate is 1.775% of pensionable earnings.

9.17 The figure shown for pension value includes the total pension payable to the member under both the pre- and post-2015 Ministerial pension schemes.

*The Cash Equivalent Transfer Value (CETV)*

9.18 This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total Ministerial service, not just their current appointment as a Minister. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

*The real increase in the value of the CETV*

9.19 This is the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by the Minister. It is worked out using common market valuation factors for the start and end of the period.

*Civil Service pensions*

9.20 Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

9.21 These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

9.22 Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

9.23 The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

9.24 The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

9.25 Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk

*Officials' pension benefits (subject to audit)*

| Officials | Accrued pension at pension age as at 31/03/16 and related lump sum | Real increase in pension and related lump sum at pension age | CETV at 31/03/16 (1) | CETV at 31/03/15 | Real increase in CETV £000's |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Melanie Dawes | 50-55 plus lump sum of 140-145 | 7.5-10 plus lump sum of 15-17.5 | 895 | 698 | 128 |
| Peter Schofield | 40-45 plus lump sum of 120-125 | 2.5-5 plus lump sum of 0-2.5 | 692 | 594 | 31 |
| Helen Edwards | 30-35 plus lump sum of 0-5 | 2.5-5 plus lump sum of 0-2.5 | 666 | 622 | 50 |
| Louise Casey | 35-40 plus lump sum of 110-115 | 2.5-5 plus lump sum of 12.5-15 | 704 | 567 | 69 |
| Simon Ridley | 25-30 plus lump sum of 75-80 | 0-2.5 plus lump sum of 0-2.5 | 383 | 336 | 25 |
| Andrew Campbell | 45-50 plus lump sum of 75-80 | 0-2.5 plus lump sum of 0-2.5 | 957 | 931 | 11 |
| Stephen Meek | 35-40 plus lump sum of 100-105 | 0-2.5 plus lump sum of 0-2.5 | 657 | 604 | 28 |
| David Hill | 20-25 plus lump sum of 55-60 | 0-2.5 plus lump sum of 0-2.5 | 259 | 240 | 10 |
| Jacinda Humphry | 30-35 plus lump sum of 80-85 | 2.5-5 plus lump sum of 0-2.5 | 520 | 451 | 23 |
| Christine Hewitt | 25-30 plus lump sum of 75-80 | 0-2.5 plus lump sum of 2.5-5 | 506 | 475 | 17 |
| Dawn Brodrick | 50-55 plus lump sum of Nil | 0-2.5 plus lump sum of Nil | 839 | 783 | 15 |

(1) The factors used to calculate the CETV were reviewed by the scheme actuary in 2015, so the tables of factors used to calculate the CETV in 2015 are not the same as those used to calculate the CETV in 2016. Taking account of inflation, the CETV funded by the employer has decreased in real terms.

*The Cash Equivalent Transfer Value*

9.26 A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

9.27 The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

*Real increase in the value of the CETV*

9.28 This reflects the increase in the CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

# 10 Staff Report

## Staff numbers and related costs (subject to audit)

### Staff costs[56]

£'000

| | | | | | 2015-16 | 2014-15 |
|---|---|---|---|---|---|---|
| | Permanently Employed Staff | Others | Ministers | Special Advisers | Total | Total |
| Wages & Salaries | 151,402 | 7,587 | 288 | 172 | 159,449 | 159,019 |
| Social Security Costs | 13,693 | 26 | 28 | 16 | 13,763 | 13,488 |
| Pension Costs | 36,867 | 30 | - | 24 | 36,921 | 30,538 |
| **Total Costs** | **201,962** | **7,643** | **316** | **212** | **210,133** | **203,045** |
| Less Recoveries in respect of outward secondments | (1,018) | - | - | - | (1,018) | (794) |
| **Total Net Costs** | **200,944** | **7,643** | **316** | **212** | **209,115** | **202,251** |
| Of which: | | | | | | |
| Core Department | 91,192 | 3,778 | 316 | 212 | 95,498 | 95,714 |
| Agency | 34,554 | 639 | - | - | 35,193 | 35,334 |
| Designated Bodies | 76,216 | 3,226 | - | - | 79,442 | 71,997 |

### Average number of whole-time equivalent persons employed

| | | | | | 2015-16 | 2014-15 |
|---|---|---|---|---|---|---|
| | Permanent staff | Others | Ministers | Special Advisers | Total | Total |
| Core Department | 1,484 | 206 | 6 | 2 | 1,698 | 1,703 |
| Agency | 668 | 11 | - | - | 679 | 696 |
| Departmental Group | 1,181 | 65 | - | - | 1,246 | 1,244 |
| **Total** | 3,333 | 282 | 6 | 2 | 3,623 | 3,643 |

### *The Principal Civil Service Pension Scheme (PCSPS)*

10.1 The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) - known as "alpha" are unfunded multi-employer defined benefit scheme but the Department is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

10.2 For 2015-16, employers' contributions of £19,983,651 (2014-15: £18,767,139) were payable to the Principal Civil Service Pension Scheme at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2015-16 to be paid when the member retires and not the benefits paid during this period to existing pensioners. Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. For 2015-16, employers' contributions of £145,731 (2014-15: £167,850) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable earnings up to 30 September 2015 and from 8% to 14.75% of pensionable earning from 1 October 2015. Employers also match employee contributions up to 3% of pensionable earnings. In addition, for 2015-16, employer contributions of £0 (2014-15: £0), 0.8% of pensionable pay up to 30 September 2015 and 0.5% of pensionable pay from 1 October 2015, were payable to the PCSPS to cover the

[56] Special Advisers wages and salaries include compensation in lieu of notice and untaken holiday pay paid to them on their resignation preceding the general election.

cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

10.3 Contributions due to the partnership pension providers at the accounting date were £7,558 (2014-15: £8,099). Contributions prepaid at that date were nil.

10.4 One member of staff (2014-15: one) retired early on ill-health grounds; the additional accrued pension liabilities in the year amounted to £4,785 (2014-15: £4,615).

## Reporting of Civil service and other compensation schemes – exit packages (subject to audit)

10.5 In the core Department and Agency, redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full when the exit has been agreed in accordance with IAS 19 and 37. Where the Department has agreed early retirements, the additional costs are met by the Department and not by the Civil Service pension scheme. Ill health retirement costs are met by the pension scheme and are not included in the table.

Staff employed by other bodies in the departmental Group are not civil servants and redundancy and other departure costs are paid in accordance with the rules applying to the bodies in question. Further details are in the accounts of the bodies concerned.

| | | | 2015-16 | 2014-15 |
|---|---|---|---|---|
| | | | Core Department and Agency | |
| **Exit package cost band** | **Number of compulsory redundancies** | **Number of other departures agreed** | **Total number of exit packages by cost band** | **Total number of exit packages by cost band** |
| <£10,000 | - | 6 | 6 | 1 |
| £10,000 - £25,000 | - | 55 | 55 | 6 |
| £25,000 - £50,000 | - | 72 | 72 | 4 |
| £50,000 - £100,000 | - | 113 | 113 | 7 |
| £100,000 - £150,000 | - | - | - | 2 |
| £150,000 - £200,000 | - | - | - | - |
| £200,001 onwards | - | - | - | - |
| **Total number of exit packages** | **-** | **246** | **246** | **20** |
| | | | £'000 | £'000 |
| **Total cost** | **-** | **11,984** | **11,984** | **984** |

| | | | 2015-16 | 2014-15 |
|---|---|---|---|---|
| | | | Departmental Group | |
| **Exit package cost band** | **Number of compulsory redundancies** | **Number of other departures agreed** | **Total number of exit packages by cost band** | **Total number of exit packages by cost band** |
| <£10,000 | 2 | 8 | 10 | 6 |
| £10,000 - £25,000 | - | 69 | 69 | 12 |
| £25,000 - £50,000 | - | 98 | 98 | 9 |
| £50,000 - £100,000 | - | 140 | 140 | 16 |
| £100,000 - £150,000 | 1 | 4 | 5 | 6 |
| £150,000 - £200,000 | - | - | - | - |
| £200,001 onwards | - | - | - | - |
| **Total number of exit packages** | **3** | **319** | **322** | **49** |
| | | | £'000 | £'000 |
| **Total cost** | **137** | **15,668** | **15,805** | **2,396** |

## Overview of key HR activities for 2015-16[57]

10.6 A number of key business priorities were delivered by the HR function in 2015-16. These included:

- Running a voluntary exit scheme in the third quarter of 2015-16. The scheme was designed to allow the department to begin to make necessary administrative efficiencies while retaining staff with the skills and capabilities required for the future. 213 staff took up the offer to leave the department with the majority leaving by 1 April 2016. Those staff leaving were supported by a package of support including one-to-one career chats, workshops on CV writing and interview skills.
- Supporting and enabling the Departmental Change process, in particular through establishing 'team change conversations' at the core of our approach to change leadership and engagement. One key element of this was the development of DCLG's new Vision, which was co-designed through SCS-led team conversations and launched in November 2015.
- As part of continuing to improve performance management, we have supported Departmental activity to raise the performance bar through setting new DCLG performance standards, in particular through higher minimum expectations on what it means to be a "Good" performer. We have also been continuing to improve the quality, regularity and honesty of ongoing performance and development conversations through the year and there has been a focused approach to managing and supporting poor and under-performers.
- Strengthening senior ownership of the talent agenda through the introduction of the Senior Pay, Performance and Talent Committee comprising the Executive Team and a Non-Executive Director. The Committee meets monthly to review our talent pipeline and succession plans for senior roles, and agree activities and interventions to develop and attract talent. We have also extended our identification of talent further into the organisation and are one of the first Departments to have assessed talent at HEO and SEO level.
- As a first step in developing our apprenticeships strategy, created apprenticeship opportunities at AO and EO level. In autumn 2015 the Department recruited 11 apprentices and plan to increase the annual intake to 20 from 2016/17.
- Leading on 12 SCS appointments during this period and in February launched central recruitment schemes for HEOs, G7s and G6s. We have also participated in the Movement to Work scheme, the Summer Diversity Internship programme and placed several Whitehall Interns into DCLG.

10.7 Alongside this, we have worked with the Planning Inspectorate and Homes and Communities Agency to look at opportunities for improving alignment, efficiency and effectiveness in how we operate HR functions across the three organisations. Our overall ambition is to move to a DCLG Group HR operating model – though this does not presume a single HR function for the three organisations - and work on this continues into 2016/17.

### *Learning and Development*

10.8 Staff continue to be encouraged to complete at least five days of learning and development during the year, with 71% of staff saying they did so in the 2015 Civil Service People Survey, an increase of 7% on last year. In addition to the standard mandatory CSL courses, all DCLG staff are now expected to complete the online Disability Awareness training.

10.9 The department has invested in Diversity and Inclusivity training this year with a programme of face-to-face Unconscious Bias training for all Line Managers and Mental Health Awareness training which has resulted in over 80 staff attending the 2-day Mental Health First Aid (MHFA) workshop and a further 200 attending half-day Mental Health and Wellbeing workshops.

10.10 This year, the Department has secured a programme of training for resilience and is focusing its learning and development interventions on building capability and core skills, talent management, and diversity; as well as continuing development of staff in professions.

[57] For clarity, and unless shown otherwise, this section relates to the core Department only. Please refer to the Annual Report and Accounts of the individual bodies for information on HR resources in the Department's ALBs.

### *Civil Service People Survey 2015*

10.11 82% of staff completed the 2015 Civil Service People Survey. The Department improved its engagement index score by four percentage points to 57% and is now above the Civil Service median in all nine themes and a high performer in five of these. The three themes that showed most improvement were:

- Learning and development, up four percentage points to 58%;
- Organisational objectives and purpose, up three percentage points to 84%; and
- Pay and benefits, up seven percentage points to 38%.

10.12 There is still more to do to bring our engagement scores in line with the top performing departments in the Civil Service. We are looking at ways of increasing our scores on inclusion and fair treatment, as our scores remain unchanged from last year, and while still above Civil Service median, they are below the Civil Service high performers. Similarly, while above the Civil Service median, the Department wants to ensure all staff understand our organisational objectives and how their work contributes towards them.

### *Diversity and Inclusion*

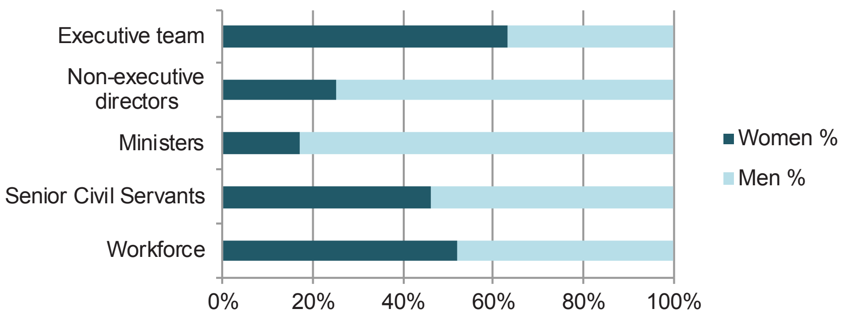
10.13 The Department meets or exceeds cross Whitehall gender, ethnicity and disability targets for the representation in the Senior Civil Service and in Top Management positions. The Department has good declaration rates with those for ethnicity and disability above the Civil Service average.

10.14 The Department has continued to build the capability of the Staff Networks through strong partnerships with senior Diversity Champions, promoting a diverse, inclusive and sustainable culture. A product of this partnership has been the “We Are DCLG” campaign which celebrates the diversity and creativity of inspirational people across the Department and the contribution they make to the Department and communities they live in. The Staff Networks have made an online product available as part of our brand to all staff and new recruits.

10.15 The Department has continued to support staff on a range of centrally run developmental programmes such as Minority Ethnic Talent Association and Positive Action Pathways. It has also launched a Reverse Mentoring programme between junior members of staff and the Executive Team.

10.16 A new structured programme was introduced for the Fast Stream Diversity Interns, with an alumni being created to encourage active involvement in Departmental recruitment activities. Finally, a new Disability Support package was launched to support both disabled people and their managers. It included new policies for Disability Leave alongside the introduction of mandatory Disability Awareness training for all staff.

**Staff breakdown by gender as at 31st March 2016 (Core Department only)**




### *Staffing – staff in post*

10.17 The Department publishes monthly workforce management information, including numbers of payroll and non-payroll staff, for the core Department, Executive Agency and Executive NDPBs on the departmental website. This information can be found here: https://www.gov.uk/government/collections/workforce-management.

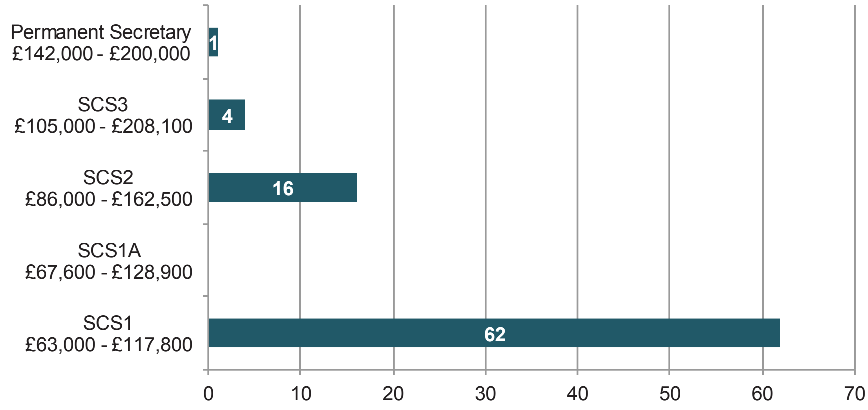
10.18 We recruited 183 whole-time equivalent staff this year to fill specific vacancies and skills gaps. Over 101 of these were recruited on fixed-term or temporary contracts.

10.19 202 people left the core department on a voluntary exit scheme in 2015-16 which was opened in November 2014 with a further 11 deferred exits scheduled in 2016-17.

## *Senior Civil Service salaries and staffing*

10.20 At 31 March 2016 there were 83 Senior Civil Service staff, including the Permanent Secretary, on the Department's payroll.

### SCS Headcount by pay band as at 31st March 2016 (Core Department only)




Note: The figures above include individuals in receipt of temporary responsibility allowance for working at a higher grade, and have been counted at the relevant higher grade. Additional SCS staff working for the Department providing corporate services through cross-department arrangements, such as Treasury Solicitors, Audit or Crown Commercial Services, have not been included in the figures above.

## *Sickness Absence*

10.21 The quarterly sickness absence statistics produced by the Department contribute to Cabinet Office's analysis of absence for the Civil Service as a whole. An aggregate data set is produced for the core Department Group and its Executive Agency only. The data draws from individual and manager recorded sickness absence and is broken down into a number of categories including location, age, gender, short versus long-term absence and reasons for absence.

10.22 The quarterly statistics for the year to 31 December 2015 (the latest period for which data is currently available) show that the average working days lost (AWDL) per staff year in the Civil Service stood at 7.4 days and compares to 7.3 days for the same period in 2014. The figure for the core Department was 6.5 and 7.5 for PINS.

10.23 Sickness levels have increased slightly from the same quarter in 2014. Levels of absence remain below the Civil Service average, and are currently lower than the average for private sector, public service and not-for-profit organisations as detailed in the Chartered Institute of Personnel and Development 2014 Absence Management Survey.

10.24 The percentage of civil servants taking no sick leave during the 2015 calendar year was 58% for the core Department and 46% for PINS.

*Expenditure on Consultancy and Temporary Staff*

| | 2015-16 £000 | 2014-15 £000 | 2013-14 £000 |
|---|---|---|---|
| **Cost of Contingent Labour** | | | |
| DCLG | 2,858 | 4,290 | 3,270 |
| Executive Agency[1] | 2,796 | 1,349 | 435 |
| NDPBs [2] | 3,463 | 2,330 | 1,452 |
| **Total** | 9,117 | 7,969 | 5,157 |
| **Cost of Consultancy** | | | |
| DCLG | 511 | 929 | 524 |
| Executive Agency | - | - | - |
| NDPBs [2] | 24 | 59 | 75 |
| **Total** | 535 | 988 | 599 |
| **Overall Total** | **9,652** | **8,957** | **5,756** |

Note: Temporary staff – This is the provision of workers to cover business-as-usual or service delivery activities within an organisation. Temporary Staff are also often referred to as “Contingent Labour”.

Note: Consultancy staff – This is the provision to management of objective advice relating to strategy, structure, management or operations of an organisation, in pursuit of its purposes and objectives. Such advice will be provided outside the business-as-usual environment when in-house skills are not available and will be time-limited. Consultancy may include the identification of options with recommendations, or assistance with (but not the delivery of) the implementation of solutions.

Figures include VAT when appropriate and irrecoverable

[1] Since November 2014, PINS have included FTE & expenditure in respect of non-salaried inspectors which is the reason for the increase in contingent labour costs.

[2] Figures have been included for any bodies in scope that have subsequently closed in the last three years

*Reporting of off-payroll appointments*

10.25 As part of the Review of Tax Arrangements of Public Sector Appointees published by the Chief Secretary to the Treasury on 23 May 2012, departments and their Arms Length Bodies must publish information on their highly paid and/or senior off-payroll engagements.

10.26 The Department uses off-payroll arrangements for specialist or technical contractors and consultants to address urgent scarce skills gaps. Contractual controls, including the right to request assurance on tax obligations, means there is no opportunity of any tax avoidance arrangements.

### Off-payroll engagements as of 31 March 2016, for more than £220 per day and that last for longer than six months.

| | Main Department | Agency | ALBs |
|---|---|---|---|
| **No. of existing engagements as of 31 March 2016** | **21** | **79** | **14** |
| **of which:** | | | |
| No. that have existed for less than one year at time of reporting | 12 | 4 | 12 |
| No. that have existed for between one and two years at time of reporting | 8 | 1 | 2 |
| No. that have existed for between two and three years at time of reporting | 1 | 4 | - |
| No. that have existed for between three and four years at time of reporting | - | 10 | - |
| No. that have existed for four years or more at time of reporting | - | 60 | - |

**Note**: The Department has confirmed that all existing off-payroll engagements, outlined above, have at some point been subject to a risk based assessment as to whether assurance is required that the individual is paying the right amount of tax and, where necessary, that assurance has been sought.

### New off-payroll engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016, for more than £220 per day and that last for longer than six months.

| | Main Department | Agency | ALBs |
|---|---|---|---|
| **No. of new engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016** | **24** | **80** | **18** |
| No. of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations | 24 | 80 | 4 |
| No. for whom assurance has been requested | 24 | 80 | 18 |
| **Of which:** | | | |
| No. for whom assurance has been received | 10 | 80 | 18 |
| No. for whom assurance has not been received | 14 | - | - |
| No. that have been terminated as a result of assurance not being received | - | - | - |

**Note**: DCLG are awaiting for 14 assurances as at 17th June 2016. Respondents were given a deadline of 3rd June 2016 to provide assurances. The Department will continue to pursue before considering terminations.

### Off-payroll engagements of board members and/or senior officials with significant financial responsibility between 1 April 2015 and 31 March 2016:

| | Main Department | Agency | ALBs |
|---|---|---|---|
| No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year | - | 1[(1)] | 2[(2)] |
| Total no. of individuals both on and off-payroll that have been deemed "board members and/or senior officials with significant financial responsibility", during the financial year. The total figure must include engagements which are on payroll as well as those off-payroll | 16 | 16 | 54 |

[(1)]PINS had an interim board member on an off-payroll contract, which lasted for less than 6 months. Their remit was to lead a significant organisational change for which the required skills and experience were not readily available within the organisation. Due to personal reasons, this individual left the organisation at short notice and prior to providing the requested tax assurance. PINS continues to pursue the necessary assurances on the individual's tax obligations.

[(2)]Cabinet Office approval is being sought to transfer the interim Ebbsfleet Development Corporation CEO onto payroll. Assurance has been received from the individual. In addition, there is an interim Valuation Tribunal for England (VTE) Vice President on the Valuation Tribunal Service (VTS) Board who has been on an off payroll contract since August 2015. This arrangement is in place until a new VTE President is appointed. Assurance has been received from the individual.

# Parliamentary Accountability and Audit Report

## Statement of Parliamentary Supply (subject to audit)

For the year ended 31 March 2016

### Summary of Resource and Capital Outturn 2015-16

£'000

| | | 2015-16 | | | | | | | 2014-15 |
|---|---|---|---|---|---|---|---|---|---|
| | | Estimate | | | Outturn | | | Outturn compared with Estimate: saving/ (excess) | Outturn |
| | Note | Voted | Non-Voted | Total | Voted | Non-Voted | Total | | Net Total |
| **Spending in Departmental Expenditure Limit (DEL) - DCLG Communities** | | | | | | | | | |
| Resource | SoPS1.1 | **2,569,682** | **(358)** | 2,569,324 | **2,271,824** | (358) | 2,271,466 | **297,858** | 2,131,227 |
| Capital | SoPS1.2 | **4,048,151** | **-** | 4,048,151 | **3,910,952** | - | 3,910,952 | **137,199** | 4,398,422 |
| **Spending in DEL - DCLG Local Government** | | | | | | | | | |
| Resource | SoPS1.1 | **10,758,675** | **-** | 10,758,675 | **10,757,715** | - | 10,757,715 | **960** | 13,656,825 |
| Capital | SoPS1.2 | **-** | **-** | - | **-** | - | - | **-** | - |
| **Spending in Annually Managed Expenditure (AME)** | | | | | | | | | |
| Resource | SoPS1.1 | **12,925,979** | **-** | 12,925,979 | **12,646,415** | - | 12,646,415 | **279,564** | 12,208,559 |
| Capital | SoPS1.2 | **301,035** | **-** | 301,035 | **298,004** | - | 298,004 | **3,031** | 120,882 |
| Total Budget | | **30,603,522** | **(358)** | 30,603,164 | **29,884,910** | (358) | 29,884,552 | **718,612** | 32,515,915 |
| Non Budget: | | | | | | | | | |
| Resource | | **-** | **-** | - | **-** | - | - | **-** | (47,704) |
| Total | | **30,603,522** | **(358)** | 30,603,164 | **29,884,910** | (358) | 29,884,552 | **718,612** | 32,468,211 |
| | | | | | | | | | |
| Total Resource | SoPS1.1 | **26,254,336** | **(358)** | 26,253,978 | **25,675,954** | (358) | 25,675,596 | **578,382** | 27,948,907 |
| Total Capital | SoPS1.2 | **4,349,186** | **-** | 4,349,186 | **4,208,956** | - | 4,208,956 | **140,230** | 4,519,304 |
| Total | | **30,603,522** | **(358)** | 30,603,164 | **29,884,910** | (358) | 29,884,552 | **718,612** | 32,468,211 |

### Net Cash Requirement 2015-16

£'000

| | | 2015-16 | | | 2014-15 |
|---|---|---|---|---|---|
| | Note | Estimate | Outturn | Outturn compared with Estimate: saving/(excess) | Outturn |
| Net Cash Requirement | SoPS3 | **21,312,213** | **18,811,911** | 2,500,302 | 20,879,645 |

### Administration Costs 2015-16

£'000

| | | 2015-16 | | | 2014-15 |
|---|---|---|---|---|---|
| | Note | Estimate | Outturn | Outturn compared with Estimate: saving/(excess) | Outturn |
| Administration Costs | | **314,136** | **278,762** | 35,374 | 256,600 |

# Notes to the Statement of Parliamentary Supply

## SoPS 1.1 Analysis of net resource outturn by section

£'000

| | | | | | | | | | | | 2014-15 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2015-16 | | | | | | | | | | |
| | Outturn | | | | | | | Estimate | | | Outturn |
| | Administration | | | Programme | | | | | | | |
| | Gross | Income | Net | Gross | Income | Net | Total | Net Total | Net total compared to Outturn | Net total compared to Outturn, adjusted for virements | Total |
| **Spending in Departmental Expenditure Limit (DEL) - DCLG Communities** | | | | | | | | | | | |
| **Voted expenditure** | | | | | | | | | | | |
| A Localism | - | - | - | 520,470 | (26,913) | 493,557 | 493,557 | 670,993 | 177,436 | 177,436 | 390,848 |
| B Neighbourhoods | 54,401 | (12,686) | 41,715 | 1,432,629 | (1,696) | 1,430,933 | 1,472,648 | 1,474,598 | 1,950 | 1,950 | 1,187,420 |
| C Local Economies, Regeneration & European Programmes | - | - | - | 202,888 | (133,992) | 68,896 | 68,896 | 65,491 | (3,405) | - | 187,618 |
| D Troubled Families | - | - | - | 142,335 | (70,000) | 72,335 | 72,335 | 72,772 | 437 | 437 | 127,854 |
| E Research, Data & Trading Funds | - | - | - | 11,509 | (17,039) | (5,530) | (5,530) | 77,946 | 83,476 | 83,476 | 35,701 |
| F DCLG Staff, Building and Infrastructure Costs | 203,959 | (43,507) | 160,452 | 3,026 | (968) | 2,058 | 162,510 | 189,080 | 26,570 | 21,951 | 145,417 |
| G Localism (ALB)(Net) | 19,716 | - | 19,716 | - | - | - | 19,716 | 18,502 | (1,214) | - | 24,541 |
| H Neighbourhoods (ALB) (Net) | 57,237 | - | 57,237 | (69,545) | - | (69,545) | (12,308) | 300 | 12,608 | 12,608 | 59,977 |
| I Local Economies, Regeneration & European Programmes (ALB) (Net) | - | - | - | - | - | - | - | - | - | - | (28,337) |
| **Total Voted** | **335,313** | **(56,193)** | **279,120** | **2,243,312** | **(250,608)** | **1,992,704** | **2,271,824** | **2,569,682** | **297,858** | **297,858** | **2,131,039** |
| **Non Voted Expenditure** | | | | | | | | | | | |
| J Neighbourhoods | (358) | - | (358) | - | - | - | (358) | (358) | - | - | 188 |
| **Total Non Voted** | (358) | - | (358) | - | - | - | (358) | (358) | - | - | 188 |
| **Total spending in DEL - DCLG Communities** | **334,955** | **(56,193)** | **278,762** | **2,243,312** | **(250,608)** | **1,992,704** | **2,271,466** | **2,569,324** | **297,858** | **297,858** | **2,131,227** |

£'000

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | **2015-16** | **2014-15** |
| | **Outturn** | | | | | | | **Estimate** | | | **Outturn** |
| | **Administration** | | | **Programme** | | | | | | | |
| | **Gross** | **Income** | **Net** | **Gross** | **Income** | **Net** | **Total** | **Net Total** | **Net total compared to Outturn** | **Net total compared to Outturn, adjusted for virements** | **Total** |
| **Spending in DEL - DCLG Local Government** | | | | | | | | | | | |
| **Voted expenditure** | | | | | | | | | | | |
| K Revenue Support Grant | - | - | - | 9,532,754 | - | 9,532,754 | 9,532,754 | 9,532,755 | 1 | 1 | 12,700,735 |
| L Other Grants and Payments | - | - | - | 1,223,544 | - | 1,223,544 | 1,223,544 | 1,224,503 | 959 | 959 | 865,300 |
| M Business Rates Retention | - | - | - | 1,417 | - | 1,417 | 1,417 | 1,417 | - | - | 90,790 |
| **Total spending in DEL - DCLG Local Government** | **-** | **-** | **-** | **10,757,715** | **-** | **10,757,715** | **10,757,715** | **10,758,675** | **960** | **960** | **13,656,825** |
| **TOTAL DEL spend** | **334,955** | **(56,193)** | **278,762** | **13,001,027** | **(250,608)** | **12,750,419** | **13,029,181** | **13,327,999** | **298,818** | **298,818** | **15,788,052** |

£'000

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | 2015-16 | 2014-15 |
| | Outturn | | | | | | | Estimate | | | Outturn |
| | Administration | | | Programme | | | | | | | |
| | Gross | Income | Net | Gross | Income | Net | Total | Net Total | Net total compared to Outturn | Net total compared to Outturn, adjusted for virements | Total |
| **Spending in Annually Managed Expenditure (AME)** | | | | | | | | | | | |
| **Voted expenditure** | | | | | | | | | | | |
| N Localism | - | - | - | 429,137 | (1,599) | 427,538 | 427,538 | 412,656 | (14,882) | - | 499,208 |
| O Neighbourhoods | - | - | - | 4,454 | - | 4,454 | 4,454 | 213,285 | 208,831 | 185,806 | (1,770) |
| P Research, Data & Trading Funds | - | - | - | 2,992 | 3,432 | 6,424 | 6,424 | 8,100 | 1,676 | 1,676 | (22,078) |
| Q DCLG Staff, Building and Infrastructure Costs | - | - | - | 2,961 | - | 2,961 | 2,961 | 2,100 | (861) | - | (2,177) |
| R NDR Outturn Adjustment | - | - | - | - | - | - | - | 60,949 | 60,949 | 50,000 | - |
| S Localism (ALB)(Net) | - | - | - | 408 | - | 408 | 408 | 1,484 | 1,076 | 1,076 | (4,759) |
| T Neighbourhoods (ALB) (Net) | - | - | - | 34,238 | - | 34,238 | 34,238 | 75,244 | 41,006 | 41,006 | 3,238 |
| U Business Rates Retention | - | - | - | 14,717,944 | (2,554,834) | 12,163,110 | 12,163,110 | 12,152,161 | (10,949) | - | 11,661,903 |
| Local Economies, Regeneration & European Programmes | - | - | - | 7,282 | - | 7,282 | 7,282 | - | (7,282) | - | - |
| Local Economies, Regeneration & European Programmes (ALB) (Net) | - | - | - | - | - | - | - | - | - | - | 74,994 |
| **TOTAL AME spend** | **-** | **-** | **-** | **15,199,416** | **(2,553,001)** | **12,646,415** | **12,646,415** | **12,925,979** | **279,564** | **279,564** | **12,208,559** |
| **TOTAL DEL & AME** | **334,955** | **(56,193)** | **278,762** | **28,200,443** | **(2,803,609)** | **25,396,834** | **25,675,596** | **26,253,978** | **578,382** | **578,382** | **27,996,611** |
| **Spending in Non-Budget Expenditure Limits** | | | | | | | | | | | |
| **Voted expenditure** | | | | | | | | | | | |
| Prior Period Adjustment | - | - | - | - | - | - | - | - | - | - | (47,704) |
| **TOTAL** | **334,955** | **(56,193)** | **278,762** | **28,200,443** | **(2,803,609)** | **25,396,834** | **25,675,596** | **26,253,978** | **578,382** | **578,382** | **27,948,907** |

## SoPS 1.2 Analysis of net capital outturn by section

£'000

| | | | | | | **2015-16** | **2014-15** |
|---|---|---|---|---|---|---|---|
| | **Outturn** | | | **Estimates** | | | **Outturn** |
| | **Gross** | **Income** | **Net** | **Net Total** | **Net Total compared to Outturn** | **Net total compared to Outturn, adjusted for virements** | **Net** |
| **Spending in Departmental Expenditure Limit (DEL) - DCLG Communities** | | | | | | | |
| **Voted:** | | | | | | | |
| A Localism | 1,100,792 | (208,327) | 892,465 | 799,076 | (93,389) | - | 994,242 |
| B Neighbourhoods | 264,057 | (271,994) | (7,937) | 47,707 | 55,644 | 55,644 | 191,711 |
| C Local Economies, Regeneration & European Programmes | 1,587,148 | (259,125) | 1,328,023 | 1,342,893 | 14,870 | 14,870 | 893,195 |
| E Research, Data & Trading Funds | 2,227 | (2,227) | - | - | - | - | - |
| F DCLG staff, building and infrastructure costs | 4,863 | (21,840) | (16,977) | 4,655 | 21,632 | 21,632 | 2,870 |
| G Localism (ALB)(Net) | 163 | - | 163 | 263 | 100 | 100 | 169 |
| H Neighbourhoods (ALB) (Net) | 1,715,215 | - | 1,715,215 | 1,872,957 | 157,742 | 44,953 | 2,345,737 |
| I Local Economies, Regeneration & European Programmes (ALB) (Net) | - | - | - | (19,400) | (19,400) | - | (29,502) |
| **Total spending in DEL - DCLG Communities** | **4,674,465** | **(763,513)** | **3,910,952** | **4,048,151** | **137,199** | **137,199** | **4,398,422** |
| **Spending in DEL - DCLG Local Government** | | | | | | | |
| **Voted:** | | | | | | | |
| K Revenue Support Grant | - | - | - | - | - | - | - |
| L Other Grants and Payments | - | - | - | - | - | - | - |
| M Business Rates Retention | - | - | - | - | - | - | - |
| **Total spending in DEL - DCLG Local Government** | **-** | **-** | **-** | **-** | **-** | **-** | |
| **TOTAL spending in DEL** | **4,674,465** | **(763,513)** | **3,910,952** | **4,048,151** | **137,199** | **137,199** | **4,398,422** |
| **Annually Managed Expenditure (AME)** | | | | | | | |
| **Voted:** | | | | | | | |
| N Localism | 90,969 | - | 90,969 | 94,000 | 3,031 | 3,031 | - |
| O Neighbourhoods | 207,035 | - | 207,035 | 207,035 | - | - | 120,882 |
| T Neighbourhoods (ALB) (Net) | - | - | - | - | - | - | - |
| U Business Rates Retention | - | - | - | - | - | - | - |
| **TOTAL spending in AME** | **298,004** | **-** | **298,004** | **301,035** | **3,031** | **3,031** | **120,882** |
| **TOTAL DEL & AME** | **4,972,469** | **(763,513)** | **4,208,956** | **4,349,186** | **140,230** | **140,230** | **4,519,304** |

## SoPS 2. Reconciliation of net resource outturn to net operating expenditure

£'000

| | | Notes | 2015-16 | 2014-15 |
|---|---|---|---|---|
| Total resource outturn in Statement of Parliamentary Supply: | | SoPS1.1 | | |
| Budget | | | 25,675,596 | 27,996,611 |
| Non Budget | | | | (47,704) |
| Add: | Capital Grants | | 2,594,238 | 3,141,567 |
| | Capital budget adjustments | | (33,832) | (10,698) |
| | Absorption and Asset Transfers | 4,5 | 153,840 | (6,695) |
| Less: | Income payable to the Consolidated Fund | SoPS4.1 | (173,580) | (167,829) |
| | Prior Period Adjustment | | | 47,704 |
| **Net Operating Expenditure in Consolidated Statement of Comprehensive Net Expenditure** | | | **28,216,262** | **30,952,956** |

## SoPS 3. Reconciliation of Net Resource and Capital Outturn to Net Cash Requirement

£'000

| | | | | 2015-16 |
|---|---|---|---|---|
| | Note | Estimate | Outturn | Net total outturn compared with Estimate: saving/(excess) |
| **Resource Outturn** | SoPS1.1 | 26,253,978 | 25,675,596 | 578,382 |
| **Capital Outturn** | SoPS1.2 | 4,349,186 | 4,208,956 | 140,230 |
| **Accruals to cash adjustments:** | | | | |
| *Adjustments to remove non-cash items:* | | | | |
| Depreciation and amortisation | 4 | (12,204) | (7,473) | (4,731) |
| New provisions and adjustments to previous provisions | 13 | (217,041) | (15,695) | (201,346) |
| Prior Period Adjustments | | - | - | - |
| Other non-cash items | 4,5 | (11,411,503) | (11,359,636) | (51,867) |
| *Adjustments for NDPBs:* | | | | |
| Remove voted resource and capital | | (1,949,350) | (1,757,432) | (191,918) |
| Add cash grant-in-aid | | 1,779,879 | 1,848,034 | (68,155) |
| *Adjustments to reflect movements in working balances:* | | | | |
| Increase/(decrease) in inventories | 9 | - | 204,520 | (204,520) |
| Increase/(decrease) in receivables | | 284,850 | 72,189 | 212,661 |
| (Increase)/decrease in payables | | 2,138,560 | (157,863) | 2,296,423 |
| CFERs receivable | | - | - | - |
| Use of provisions and payment of pensions | 13,14 | 95,500 | 97,661 | (2,161) |
| Other Adjustments | | - | 2,696 | (2,696) |
| **Removal of non-voted budget items:** | | | | |
| Consolidated Fund Advance | | 358 | 358 | - |
| **Net cash requirement** | | **21,312,213** | **18,811,911** | **2,500,302** |

## SoPS 4. Income payable to the Consolidated Fund

### 4.1. Analysis of income payable to the Consolidated Fund

In addition to income retained by the Department, the following is payable to the Consolidated Fund (cash receipts being shown in italics).

£'000

| | | Outturn 2015-16 | | Outturn 2014-15 | |
|---|---|---|---|---|---|
| | | **Income** | ***Receipts*** | **Income** | ***Receipts*** |
| | Notes | | | | |
| Income outside the ambit of the Estimate | 5 | 173,580 | *173,580* | 167,829 | *167,829* |
| Other amounts collectable on behalf of the Consolidated Fund | | | | | |
| Excess cash surrenderable to the Consolidated Fund | | 13 | *13* | 74 | *74* |
| Total amount payable to the Consolidated Fund | | **173,593** | ***173,593*** | **167,903** | ***167,903*** |

### 4.2. Consolidated Fund Income

Consolidated Fund income shown in SoPS Note 4.1 above does not include any amounts collected by the Department where it was acting as agent of the Consolidated Fund rather than as principal. Full details of income collected as agent for the Consolidated Fund are in the Department's Trust Statement published separately from, but alongside these finance statements.

# Other Notes on Parliamentary Accountability

## Regularity of Expenditure (subject to audit)

### *Losses, special payments and gifts*

Managing Public Money and the FReM (both available on www.gov.uk) require a statement showing losses and special payments by value and by type. Where cases individually exceed £300,000, details of those cases must be disclosed.

| | 2015-16 | | | | 2014-15 | | | |
|---|---|---|---|---|---|---|---|---|
| | Core Department and Agency | | Departmental Group | | Core Department and Agency | | Departmental Group | |
| | Cases | £'000 | Cases | £'000 | Cases | £'000 | Cases | £'000 |
| Losses (general) | 5 | 1 | 37 | 2 | 24 | 45 | 24 | 45 |
| Claims abandoned | 55 | 20,347 | 162 | 22,970 | 19 | 4,263 | 39 | 47,797 |
| Fruitless payments | 2 | - | 2 | - | 4 | 1,266 | 4 | 1,266 |

| | 2015-16 | | | | 2014-15 | | | |
|---|---|---|---|---|---|---|---|---|
| | Core Department and Agency | | Departmental Group | | Core Department and Agency | | Departmental Group | |
| | Cases | £'000 | Cases | £'000 | Cases | £'000 | Cases | £'000 |
| Special Payments | 106 | 3,462 | 107 | 3,663 | 95 | 1,366 | 95 | 1,366 |

Included in the 2015-16 figures above, are 15 individual losses or special payments of over £300,000:

| Cases over £300k | £'000 |
|---|---|
| ERDF 07-13 self correction (see Annex B for more detail) (claims abandoned) | 4,278 |
| Eight ERDF payment recovery write offs each greater than £300k (claims abandoned) | 12,516 |
| Interest foregone on a Regional Growth Fund loan as part of an early repayment agreement (claims abandoned) | 1,241 |
| The Department has exited its contract for the provision of transactional services. A number of other departments exited their contracts with the service provider at the same time. HM Treasury approved a one-off settlement in respect of the early termination of these contracts with DCLG's share of this payment being £726k (special payments) | 726 |
| PINS: Ex gratia payment (special payments) | 437 |
| PINS: Ex gratia payment (special payments) | 510 |
| HCA: Write off of a receivable (claims abandoned) | 745 |
| HCA: Partial write off of a loan (claims abandoned) | 1463 |

Gifts, as defined by Managing Public Money, must also be disclosed and detailed where the value is greater than £300,000. Neither the Department, nor its Arms Length Bodies made any reportable gifts in 2015-16 (2014-15: nil).

## Fees and Charges (subject to audit)

The following information provides an analysis of the services for which a fee is charged.

£'000

| | 2015-16 | | | 2014-15 | | |
|---|---|---|---|---|---|---|
| **Objectives** | **Full Cost** | **Income** | **Surplus/ (Deficit)** | **Full Cost** | **Income** | **Surplus/ (Deficit)** |
| PINS: Local development frameworks, compulsory purchase orders, major specialist and national infrastructure | (16,029) | 9,114 | (6,915) | (18,176) | 11,242 | (6,934) |
| THO - Membership of Housing Ombudsman scheme | (4,818) | 4,689 | (129) | (4,495) | 4,850 | 355 |
| **Total** | **(20,847)** | **13,803** | **(7,044)** | **(22,671)** | **16,092** | **(6,579)** |

## Contingent liabilities not required to be disclosed under IAS 37 but included for parliamentary reporting and accountability purposes (subject to audit)

### Quantifiable:

The Department has entered into quantifiable contingent liabilities by offering guarantees.

- The Department has provided a Guaranteefor the affordable housing sector, guaranteeing debt of no more than £3.5 billion. At the accounting date, the Department has approved borrowing of £2.1 billion of which £1.4 billion has been drawn down and is covered by the guarantee. The guarantee has been valued in accordance with IAS39 and has been recognised as a financial guarantee in the Statement of Financial Position with a value of £9,778k.

The Department has not entered into any quantifiable contingent liabilities by offering indemnities or by giving letters of comfort.

### Unquantifiable:

The Department has entered into the following unquantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of IAS 37 since the likelihood of a transfer of economic benefit in settlement is too remote.

- Indemnity given to the Fire and Rescue Services in respect of possible incidents as a result of mass decontamination.
- Potential liabilities that may arise concerning the Firefighters Pension Scheme (FPS) in England
- Indemnity has been provided should civil claims be brought against the inspectors in relation to the investigation into the governance of Rotherham Borough Council and its findings.
- The Department intends to enter into Guarantees with the private rented sector. A delivery partner was appointed in December 2014 to administer the scheme. It is anticipated that Guarantees will be entered into during 2016-17, however they will not exceed £3.5 billion.
- NewBuy claims by mortgage lenders. Potential losses from the guarantee provided under the NewBuy scheme to underwrite a percentage of mortgage lending risk. These guarantees have been measured in accordance with IAS 37 as they do not fit the recognition criteria for a financial instrument under IAS 39. Any liability arising as measured under IAS 37 is considered too remote for recognition as a contingent liability at the date of these accounts but is disclosed for parliamentary reporting and accountability purposes.
- The Mayor is now charging the Community Infrastructure Levy across London in order to raise £301 million between 2012/13 & 2018/19 for the Abbeywood Spur of Crossrail. There are two agreements in place (one between HMT and the Department (2007) and one between the Department for Transport and Transport for London (2008) that set out the circumstances in which the Government/the Department could be asked to make up any CIL funding shortfall). The agreement does not place the Department under any contractual liability but it does set out two tightly defined circumstances in which we could be asked to fund any shortfall in CIL receipts. One is no longer applicable and one is highly unlikely to be realised.

## Financial Overview

*Significant variances against Estimate*

At the start of each year we estimate our costs for each budget type and we monitor these throughout the year. The size of our budget, along with economic, environmental and social changes means there will inevitably be some variance from our Estimates. The Statement of Parliamentary Supply on page 60 shows our 2015-16 outturn figures against Estimates.

Where the comparison of outturn against Estimate has shown an overspend or an underspend of more than £2 million and 10% this is explained below:

| Estimate Subhead | Outturn £m | Variance to Estimate % | Explanation |
|---|---|---|---|
| **Resource Departmental Expenditure Limit (RDEL) - DCLG Communities** | | | |
| Localism | 494 | 26% | The underspend is the result of flood recovery claims from Local Authorities taking longer than we had anticipated. We expect to continue to make flooding recovery payments in 2016/17. |
| Research, Data & Trading Funds | (6) | 107% | The underspend is due to movements in the Euro/Sterling exchange rate. This has resulted in less exchange rate losses than we had budgeted for in 2015/16. |
| DCLG Staff, Building and Infrastructure Costs | 163 | 14% | The Department has managed a reduction in spend on Administration budgets in preparation for the reduced budgets the Department received at the 2015 Spending Review. |
| Neighbourhoods (ALB) (Net) | (12) | 4203% | The HCA have managed a reduction in spend on Administration budgets in preparation for the reduced budgets the Department received at the 2015 Spending Review. |
| **Resource Annual Managed Expenditure (RAME)** | | | |
| Neighbourhoods | 4 | 98% | An AME budget was set aside for the New Buy programme that was not fully utilised. This budget also included a contingency for any other provisions the Department may have had to raise. |
| NDR Outturn Adjustment | - | 100% | Budget was set aside for any year end audit adjustments against the £12 billion AME business rates spending. In the event, this was not required. |
| Localism (ALB) (Net) | 0 | 73% | The Department has made an additional payment to reduce the CLAE pension deficit. This reduces the pensions liability. |
| Neighbourhoods (ALB) (Net) | 34 | 54% | The underspend is the result of lower than expected impairments on assets owned by the HCA. |
| Local Economies, Regeneration & European Programmes | 7 | 100% | A budget transfer held against the Neighbourhoods programme. |
| **Capital Departmental Expenditure Limit (CDEL) - DCLG Communities** | | | |
| Localism | 892 | -12% | In order to offset Capital underspends the Department allocated funding to the GLA on agreed profiles for commitments. This increases the Department's flexibility in later years. |
| Neighbourhoods | (8) | 117% | Delays in Housing programmes have caused underspends. |
| DCLG staff, building and infrastructure costs | (17) | 440% | The variance is a result of the derecognition of two Regional Control Centre non-current assets. These assets are leased out on finance leases. |
| Local Economies, Regeneration & European Programmes (ALB) (Net) | - | 100% | The HCA overachieved its target on historic land programme income. |

*Common Core Tables – Departmental Expenditure Outturn and Plans*

The tables below show the Department's expenditure outturn for 2015-16 and the four prior years, along with the planned expenditure for the next four years. The outturn and plans expenditure data is recorded in accordance with HM Treasury's budgeting system as set out each year in the Consolidated Budgeting Guidance.

Departments have separate budgets for

- Resource – current expenditure such as pay, procurement and current grants
- Capital – expenditure on assets, investment and capital grants

Within the Resource budget DEL there are separate administration controls set in Spending Reviews. Administration budgets cover expenditure on running Central Government entities and exclude expenditure on frontline activities.

The Spending Review in autumn 2015 set the overall Departmental budget for the rest of the Parliament (until 2019/20).

The Spending Review settlement for the Department for Communities and Local Government (DCLG) means:

- more than £20 billion of gross capital investment over the next 5 years to support housing and local growth
- doubling the housing budget from 2018/19 to deliver 400,000 new homes
- further spending on targeted initiatives that tackle homelessness and support the victims of domestic violence
- overall resource savings of 29% by 2019/20 through better financial management and further efficiency

Following the Spending Review the Department published a historic 4 year Local Government Finance Settlement. This has given local authorities great certainty about their medium term future by confirming that the sectors Core Spending Power will remain broadly flat in cash terms over the parliament falling from £44.5bn in 2015-16 to £44.3bn in 2019-20. This represents an annual reduction of just 1.9% per year in real terms.

Further information on the Department's Spending Review settlement is available here: https://www.gov.uk/government/news/department-for-communities-and-local-governments-settlement-at-the-spending-review-2015

## Past, current and future departmental resource spending

| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|---|---|---|---|
| | outturn | outturn | outturn | outturn | outturn | plan | plan | plan | plan |
| **Spending in DEL - DCLG Communities** | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Voted expenditure** | | | | | | | | | |
| *Of which:* | | | | | | | | | |
| A: Localism | 669,921 | 293,374 | 369,121 | 390,848 | 493,557 | 214,413 | 209,171 | 208,379 | 181,123 |
| B: Neighbourhoods | 346,829 | 599,458 | 908,299 | 1,187,420 | 1,472,648 | 1,813,285 | 2,008,719 | 1,454,542 | 1,417,590 |
| C: Local Economies, Regeneration & European Programmes | 319,857 | 60,599 | 178,037 | 187,618 | 68,896 | 176,900 | 150,400 | 170,100 | 171,150 |
| D: Troubled Families | 10,377 | 116,924 | 140,969 | 127,854 | 72,335 | 230,000 | 180,000 | 180,000 | 180,000 |
| E: Research, Data and Trading Funds | 34,404 | 38,111 | 18,283 | 35,701 | (5,530) | 36,082 | 35,677 | 28,544 | 18,275 |
| F: DCLG Staff, Building and Infrastructure Costs | 209,410 | 170,528 | 209,885 | 145,417 | 162,510 | 191,840 | 201,946 | 214,741 | 223,315 |
| G: Localism (ALB) (net) | 964 | - | 20,108 | 24,541 | 19,716 | 18,317 | 14,976 | 14,877 | 14,657 |
| H: Neighbourhoods (ALB)(net) | 119,262 | 81,423 | 108,310 | 59,977 | (12,308) | 20,366 | 64,381 | 101,634 | (30,764) |
| I: Local Economies, Regeneration & European Programmes (ALB) (net) | 110,377 | (11,380) | (17,335) | (28,337) | - | - | - | - | - |
| Departmental Unallocated Provision | - | - | - | - | - | 125,796 | 85,655 | 78,562 | 56,166 |
| Total Voted | 1,821,401 | 1,349,037 | 1,935,677 | 2,131,039 | 2,271,824 | 2,826,999 | 2,950,925 | 2,451,379 | 2,231,512 |
| **Non voted expenditure** | | | | | | | | | |
| J: Contingency Fund Advance | - | - | - | 188 | (358) | - | - | - | - |
| Total Non Voted | - | - | - | 188 | (358) | - | - | - | - |
| **Total Spending in DEL - DCLG Communities** | 1,821,401 | 1,349,037 | 1,935,677 | 2,131,227 | 2,271,466 | 2,826,999 | 2,950,925 | 2,451,379 | 2,231,512 |
| **Spending in DEL - DCLG Local Govt** | | | | | | | | | |
| **Voted expenditure** | | | | | | | | | |
| Of which: | | | | | | | | | |
| K: Revenue Support Grant | 5,905,455 | 477,406 | 15,200,902 | 12,700,735 | 9,532,754 | 7,205,350 | 5,002,790 | 3,593,308 | 2,173,023 |
| L: Other grants and payments | 1,383,277 | 40,232 | 983,295 | 865,300 | 1,223,544 | 1,000,300 | 844,900 | 1,390,415 | 2,072,700 |
| M: Business Rate Retention | - | - | 297,224 | 90,790 | 1,417 | - | 33,598 | 50,000 | 50,000 |
| Valuation Services | 152,000 | 141,000 | 144,000 | - | - | - | - | - | - |
| Local Government (ALB)(net) | 41,413 | 20,289 | - | - | - | - | - | - | - |
| Non-Domestic Rates Payments | 19,000,000 | 23,119,000 | - | - | - | - | - | - | - |
| London Governance | 63,423 | 55,279 | - | - | - | - | - | - | - |
| Audit Commission and Disbanding | 12,080 | 22 | - | - | - | - | - | - | - |
| **Total Spending in DEL - DCLG Local Govt** | 26,557,648 | 23,853,228 | 16,625,421 | 13,656,825 | 10,757,715 | 8,205,650 | 5,881,288 | 5,033,723 | 4,295,723 |
| **Total Resource DEL** | 28,379,049 | 25,202,265 | 18,561,098 | 15,788,052 | 13,029,181 | 11,032,649 | 8,832,213 | 7,485,102 | 6,527,235 |
| **Spending in Annually Managed Expenditure (AME)** | | | | | | | | | |
| **Voted expenditure** | | | | | | | | | |
| Of which: | | | | | | | | | |
| N: Localism | 315,743 | 399,111 | 394,778 | 499,208 | 427,538 | - | - | - | - |
| O: Neighbourhoods | (703,440) | (12,540) | 7,741 | (1,770) | 4,454 | 161 | 161 | 161 | 161 |
| P: Research, Data and Trading Funds | (61,446) | (1,621) | 15,273 | (22,078) | 6,424 | 8,100 | 8,100 | 8,100 | 8,100 |
| Q: DCLG Staff, Building and Infrastructure Costs | (20,329) | 9,226 | (18,247) | (2,177) | 2,961 | (3,096) | (2,343) | (703) | (1,162) |
| R: NNDR Outturn adjustment | 741,929 | 138,431 | 261,736 | - | - | 300,000 | - | - | - |
| S: Localism (ALB)(Net) | - | - | 719 | (4,759) | 408 | 2,145 | 2,366 | 2,151 | 2,185 |
| T: Neighbourhoods (ALB)(Net) | 64,190 | (9,719) | (64,534) | 3,238 | 34,238 | 410,396 | 532,939 | 643,591 | 711,193 |
| U: Business Rate Retention | - | - | 10,861,568 | 11,661,903 | 12,163,110 | 12,052,067 | 12,628,000 | 13,000,000 | 13,422,000 |
| Local Economies, Regeneration & European Programmes (ALB)(Net) | 55,165 | 24,408 | 10,842 | 74,994 | - | - | - | - | - |
| Local Economies, Regeneration & European Programmes | - | - | - | - | 7,282 | - | - | - | - |
| Local Government (ALB)(Net) | (9,616) | 5,652 | - | - | - | - | - | - | - |
| **Total Resource AME** | 382,196 | 552,948 | 11,469,876 | 12,208,559 | 12,646,415 | 12,769,773 | 13,169,223 | 13,653,300 | 14,142,477 |
| **Spending in Non-Budget Expenditure Limits** | | | | | | | | | |
| **Voted expenditure** | | | | | | | | | |
| V: Prior Period Adjustment | - | - | - | (47,704) | - | - | - | - | - |
| **Total Resource** | **28,761,245** | **25,755,213** | **30,030,974** | **27,948,907** | **25,675,596** | **23,802,422** | **22,001,436** | **21,138,402** | **20,669,712** |

## Past, current and future departmental capital spending

| Spending in DEL - DCLG Communities | 2011-12 outturn £'000 | 2012-13 outturn £'000 | 2013-14 outturn £'000 | 2014-15 outturn £'000 | 2015-16 outturn £'000 | 2016-17 plan £'000 | 2017-18 plan £'000 | 2018-19 plan £'000 | 2019-20 plan £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Voted expenditure** | | | | | | | | | |
| *Of which:* | | | | | | | | | |
| A: Localism | 148,879 | 952,785 | 938,636 | 994,242 | 892,465 | 447,809 | 372,300 | 63,119 | 70,094 |
| B: Neighbourhoods | 922,582 | 225,599 | 223,600 | 191,711 | (7,937) | 176,437 | 143,500 | 196,500 | 22,500 |
| C: Local Economies, Regeneration & European Programmes | 688,313 | 138,297 | 554,753 | 893,195 | 1,328,023 | 1,789,550 | 1,197,500 | 977,100 | 975,400 |
| E: Research, Data and Trading Funds | - | 1,250 | - | - | - | 6,400 | 6,000 | 6,000 | 5,805 |
| F: DCLG Staff, Building and Infrastructure Costs | 1,329 | 1,590 | 2,025 | 2,870 | (16,977) | 6,826 | 13,198 | 10,665 | 2,365 |
| G: Localism (ALB)(Net) | - | - | 232 | 169 | 163 | 371 | 550 | 150 | 150 |
| H: Neighbourhoods (ALB)(Net) | 1,836,730 | 1,197,588 | 2,149,940 | 2,345,737 | 1,715,215 | 3,100,832 | 3,443,481 | 4,204,274 | 3,467,687 |
| I: Local Economies, Regeneration & European Programmes (ALB)(Net) | 223,094 | (44,900) | (61,186) | (29,502) | - | - | - | - | - |
| Departmental Unallocated Provision | - | - | - | - | - | 12,499 | (28,331) | (125,999) | (117,939) |
| **Total Spending in DEL - DCLG Communities** | 3,820,927 | 2,472,209 | 3,808,000 | 4,398,422 | 3,910,952 | 5,540,724 | 5,148,198 | 5,331,809 | 4,426,062 |
| **Spending in DEL - DCLG Local Govt** | | | | | | | | | |
| **Voted expenditure** | | | | | | | | | |
| *Of which:* | | | | | | | | | |
| K: Other grants and payments | (7,846) | (36) | - | - | - | - | - | - | - |
| Local Government (ALB)(Net) | 129 | 1,257 | - | - | - | - | - | - | - |
| **Total Spending in DEL - DCLG Local Govt** | (7,717) | 1,221 | - | - | - | - | - | - | - |
| **Total Capital DEL** | 3,813,210 | 2,473,430 | 3,808,000 | 4,398,422 | 3,910,952 | 5,540,724 | 5,148,198 | 5,331,809 | 4,426,062 |
| **Spending in Annually Managed Expenditure (AME)** | | | | | | | | | |
| **Voted expenditure** | | | | | | | | | |
| *Of which:* | | | | | | | | | |
| M: Localism | - | - | - | - | 90,969 | - | - | - | - |
| N: Neighbourhoods | 152,824 | 33,368 | - | 120,882 | 207,035 | - | - | - | - |
| Q: Non Domestic Rates Outturn Adjustments | - | (1,499) | - | - | - | - | - | - | - |
| S: Neighbourhoods (ALB) (Net) | - | (29,090) | - | - | - | - | - | - | - |
| T: Local Economies, Regeneration & European Programmes (ALB) (Net) | - | (211) | - | - | - | - | - | - | - |
| Local Government (ALB) (Net) | - | (2,571) | - | - | - | - | - | - | - |
| **Total Spending in AME** | 152,824 | (3) | - | 120,882 | 298,004 | - | - | - | - |
| **Total Capital** | **3,966,034** | **2,473,427** | **3,808,000** | **4,519,304** | **4,208,956** | **5,540,724** | **5,148,198** | **5,331,809** | **4,426,062** |

## Administration budgets

| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|---|---|---|---|
| | Outturn £'000 | Outturn £'000 | Outturn £'000 | Outturn £'000 | Outturn £'000 | Plan £'000 | Plan £'000 | Plan £'000 | Plan £'000 |
| B: Neighbourhoods | - | 35,761 | 37,431 | 32,195 | 41,715 | 40,233 | 36,046 | 34,217 | 34,534 |
| I: Local Economies, Regeneration & European Programmes (ALB)(Net) | 26,370 | 172 | - | - | - | - | - | - | - |
| F: DCLG Staff, Building & Infrastructure Costs | 194,124 | 168,768 | 209,267 | 143,769 | 160,452 | 189,340 | 199,446 | 212,241 | 220,815 |
| G: Localism (ALB)(Net) | 964 | - | 20,108 | 24,541 | 19,716 | 18,317 | 14,976 | 14,877 | 14,657 |
| H: Neighbourhoods (ALB)(Net) | 117,521 | 80,957 | 101,078 | 55,907 | 57,237 | 57,978 | 14,817 | (8,514) | (31,866) |
| **Total Voted** | 338,979 | 285,658 | 367,884 | 256,412 | 279,120 | 305,868 | 265,285 | 252,821 | 238,140 |
| Non Voted Expenditure | | | | | | | | | |
| Neighbourhoods - Contingency Fund Advance | | | | 188 | (358) | - | - | - | - |
| **Total Non Voted** | - | - | - | 188 | (358) | - | - | - | - |
| **Total Administration expenditure** | 338,979 | 285,658 | 367,884 | 256,600 | 278,762 | 305,868 | 265,285 | 252,821 | 238,140 |

**Melanie Dawes CB** **4 July 2016**

**Accounting Officer**

**Department for Communities and Local Government**

# THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of the Department for Communities and Local Government and of its departmental Group for the year ended 31 March 2016 under the Government Resources and Accounts Act 2000. The Department consists of the core Department and its Agency. The departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2015. The financial statements comprise: the Department's and departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that is described in those reports as having been audited.

## Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's and the departmental Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are the Communities and Local Government Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2016 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's and the departmental Group's affairs as at 31 March 2016 and of the Department's net operating cost and departmental Group's net operating cost for the year then ended; and

- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

## Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## Report

I have no observations to make on these financial statements.

**Sir Amyas C E Morse**
**Comptroller and Auditor General**
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

**Date: 5 July 2016**

# FINANCIAL STATEMENTS

## Consolidated Statement of Comprehensive Net Expenditure

For the year ended 31 March 2016 *All activities are continuing*

This account summarises the expenditure and income generated and consumed on an accruals basis. It also includes other comprehensive income and expenditure, which include changes to the values of non-current assets and other financial instruments that cannot yet be recognised as income or expenditure.

£'000

| | | 2015-16 | | 2014-15 | |
|---|---|---|---|---|---|
| | **Note** | **Core Department & Agency** | **Departmental Group** | **Core Department & Agency** | **Departmental Group** |
| Staff Costs | 3 | 130,691 | 210,133 | 131,048 | 203,045 |
| Operating Expenditure | 4 | 31,512,494 | 31,915,419 | 33,725,170 | 34,859,647 |
| Operating Income | 5 | (3,689,676) | (3,909,290) | (3,958,352) | (4,109,736) |
| Grant-in-aid to ALBs | | 1,848,034 | - | 2,446,027 | - |
| **Net Operating Expenditure for the year ended 31 March** | | **29,801,543** | **28,216,262** | **32,343,893** | **30,952,956** |
| Total Expenditure | | 33,491,219 | 32,125,552 | 36,302,245 | 35,062,692 |
| Total Income | | (3,689,676) | (3,909,290) | (3,958,352) | (4,109,736) |
| **Net Operating Expenditure for the year ended 31 March** | | **29,801,543** | **28,216,262** | **32,343,893** | **30,952,956** |
| **Other Comprehensive Net Expenditure:** | | | | | |
| **Items that will not be reclassified to net operating expenditure:** | | | | | |
| Net (Gain) / Loss on: | | | | | |
| Pension Schemes | 14 | (33,380) | (47,075) | (45) | 51,490 |
| Revaluation of property, plant and equipment | 6 | - | 2 | (7) | (9) |
| Income tax on items in other comprehensive expenditure | | - | 31,985 | - | 5,751 |
| Disposal of available for sale assets recognised in net expenditure | | - | 38,665 | - | 14,251 |
| **Items that may be reclassified to net operating expenditure:** | | | | | |
| Net (Gain) / Loss on: | | - | - | - | - |
| Fair value gain on available for sale assets | 8 | - | (224,381) | - | (74,673) |
| **Total comprehensive expenditure for the year ended 31 March** | | **29,768,163** | **28,015,458** | **32,343,841** | **30,949,766** |

The Notes on pages 83 to 103 form part of these accounts.

# Consolidated Statement of Financial Position

as at 31 March 2016

This statement presents the financial position of the departmental Group. It comprises three main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of the entity.

£'000

| | Note | 31-Mar-16 Core Department & Agency | 31-Mar-16 Departmental Group | 31-Mar-15 Core Department & Agency | 31-Mar-15 Departmental Group |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 6 | 51,919 | 55,970 | 73,191 | 77,491 |
| Intangible assets | 6 | 5,569 | 8,447 | 6,066 | 9,153 |
| Investments | 7 | 57,492 | 572,769 | 62,142 | 553,837 |
| Available for sale financial assets | 8 | 187,747 | 4,627,758 | - | 2,818,150 |
| Investment properties | | 50,540 | 50,540 | 49,242 | 49,242 |
| Trade and other receivables | 10 | 17,537 | 170,799 | 12,128 | 151,857 |
| **Total non-current assets** | | **370,804** | **5,486,283** | **202,769** | **3,659,730** |
| **Current assets** | | | | | |
| Assets classified as held for sale | | 1,794 | 1,794 | 1,794 | 1,794 |
| Inventories | 9 | 291,404 | 836,317 | 86,884 | 601,706 |
| Trade and other receivables | 10 | 382,516 | 615,396 | 313,793 | 608,208 |
| Cash and cash equivalents | 11 | 391,989 | 534,702 | 450,252 | 690,430 |
| **Total current assets** | | **1,067,703** | **1,988,209** | **852,723** | **1,902,138** |
| **Total Assets** | | **1,438,507** | **7,474,492** | **1,055,492** | **5,561,868** |
| **Current liabilities** | | | | | |
| Trade and other payables | 12 | 1,393,899 | 1,600,501 | 1,425,221 | 1,835,362 |
| Provisions | 13 | 23,844 | 44,685 | 103,572 | 118,647 |
| **Total current liabilities** | | **1,417,743** | **1,645,186** | **1,528,793** | **1,954,009** |
| **Non-current assets plus/less net current assets/liabilities** | | **20,764** | **5,829,306** | **(473,301)** | **3,607,859** |
| **Non-current liabilities** | | | | | |
| Trade and other payables | 12 | 399,578 | 401,851 | 282,117 | 292,226 |
| Provisions | 13 | 16,937 | 29,654 | 18,932 | 37,354 |
| Pensions | 14 | 131,807 | 124,759 | 1,632 | 6,366 |
| Financial guarantees | | 9,778 | 9,778 | 3,983 | 3,983 |
| **Total Non-current liabilities** | | **558,100** | **566,042** | **306,664** | **339,929** |
| **Assets less liabilities** | | **(537,336)** | **5,263,264** | **(779,965)** | **3,267,930** |
| **Taxpayers' equity** | | | | | |
| General fund | | (429,951) | 5,367,699 | (796,690) | 3,259,197 |
| Revaluation reserve | | 16,546 | 16,537 | 16,622 | 16,615 |
| Pension reserve | | (123,931) | (120,972) | 103 | (7,882) |
| **Total taxpayers' equity** | | **(537,336)** | **5,263,264** | **(779,965)** | **3,267,930** |

**Melanie Dawes CB** **4 July 2016**
**Accounting Officer**
**Department for Communities and Local Government**

The Notes on pages 83 to 103 form part of these accounts.

# Consolidated Statement of Cash Flows

For the year ended 31 March 2016

The Statement of Cash Flows shows the changes in cash and cash equivalents of the departmental Group during the reporting period. The statement shows how the department generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of service costs and the extent to which these operations are funded by way of income from the recipients of services provided by the group. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to the departments' future public service delivery.

£'000

| | Note | | 2015-16 | | 2014-15 |
|---|---|---|---|---|---|
| | | Core Department & Agency | Departmental Group | Core Department & Agency | Departmental Group |
| **Cash Flows from Operating Activities** | | | | | |
| Net Operating Expenditure | SoCNE | (29,801,543) | (28,216,262) | (32,343,893) | (30,952,956) |
| **Adjusted for:** | | | | | |
| Finance costs | 4,5 | 11,886 | (17,643) | 18,760 | (18,976) |
| (Profit) / loss on disposal of non-current assets | 4,5 | 7,774 | (30,588) | (1,201) | (14,752) |
| Depreciation and amortisation | 4 | 7,473 | 10,224 | 9,055 | 12,119 |
| Revaluation of non-current assets passing through the SoCNE | 4 | (1,298) | (1,298) | (17,599) | (17,599) |
| Impairment of non-current assets | 4 | (3,797) | 32,870 | (5,550) | 6,716 |
| Increase / decrease in inventories | 9 | (204,520) | (230,816) | (22,400) | 13,144 |
| Other non cash transaction | 4,5 | (205,320) | (204,351) | (7,129) | (5,115) |
| (Increase) / decrease in trade & other receivables | | (72,189) | (69,532) | 543,317 | 502,462 |
| Increase / (decrease) in trade & other payables | | 157,863 | (53,512) | 303,515 | 396,648 |
| Movement in provisions | 4 | 15,695 | 28,529 | 101,012 | 100,878 |
| Utilisation of provision | | (97,521) | (110,294) | (14,880) | (24,865) |
| Pension fund adjustments | | (140) | 1,766 | (149) | (7,848) |
| Local share (local authorities) | 4 | 11,372,020 | 11,372,020 | 10,761,083 | 10,761,083 |
| Adjustments for Corporation Tax | | - | (31,985) | - | (5,751) |
| Adjustments for net operating (gains)/losses - absorption transfers | 4,5 | 157,635 | 153,840 | 1,005 | (6,695) |
| **Net Cash outflow from operating activities** | | **(18,655,982)** | **(17,367,032)** | **(20,675,054)** | **(19,261,507)** |
| **Cash Flows from Investing Activities** | | | | | |
| Purchase of property, plant and equipment | 6 | (4,376) | (5,020) | (1,279) | (2,265) |
| Purchase of intangible assets | 6 | (1,039) | (2,666) | (1,816) | (3,716) |
| Financial assets issued | | (60,000) | (1,928,462) | (2,000) | (1,600,832) |
| Proceeds from disposal of property, plant and equipment | | - | 2 | - | 14,706 |
| Proceeds on disposal of financial assets | | 3,495 | 236,958 | - | 88,684 |
| Proceeds from disposal of FSC assets (Held for Sale) | | - | - | 4,748 | 4,748 |
| Repayment of financial assets | 7 | 75,157 | 300,962 | - | 199,986 |
| Interest received | 5 | 2,780 | 27,828 | 2,960 | 40,342 |
| Other adjustments - investing activities | | 57 | 57 | 77 | (16,183) |
| **Net Cash inflow / (outflow) from investing activities** | | **16,074** | **(1,370,341)** | **2,690** | **(1,274,530)** |
| **Cash Flows from Financing Activities** | | | | | |
| From the consolidated fund (supply) - current year | | 18,749,806 | 18,749,806 | 21,051,000 | 21,051,000 |
| Advances from the contingencies fund | | 299,633 | 299,633 | 358 | 358 |
| Repayments of advances from the contingencies fund | | (299,991) | (299,991) | - | - |
| Capital element of payments in respect of finance leases | | (2,923) | (2,923) | (2,782) | (3,737) |
| Interest paid | 4 | (7,495) | (7,495) | (5,860) | (5,875) |
| Foreign exchange movements | 4,5 | 12,183 | 12,183 | (30,998) | (30,998) |
| **Net Cash inflow / (outflow) from financing activities** | | **18,751,213** | **18,751,213** | **21,011,718** | **21,010,748** |

| | | | | | |
|---|---|---|---|---|---|
| **Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund** | | **111,305** | **13,840** | **339,354** | **474,711** |
| Receipts due to the Consolidated Fund which are outside the scope of the Department's activities | | (9) | (9) | (100) | (100) |
| Payments due to the Consolidated Fund | | (169,572) | (169,572) | (161,263) | (161,263) |
| Other balances surrenderable to the Consolidated Fund | SoPS4.1 | 13 | 13 | 74 | 74 |
| **Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund** | | **(58,263)** | **(155,728)** | **178,065** | **313,422** |
| **Cash and cash equivalents at the beginning of the period** | 11 | **450,252** | **690,430** | **272,187** | **377,008** |
| **Cash and cash equivalents at the end of the period** | 11 | **391,989** | **534,702** | **450,252** | **690,430** |

The Notes on pages 83 to 103 form part of these accounts.

# Consolidated Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2016

This statement shows the movement in the year on the different reserves held by the departmental Group, analysed into 'general fund reserves' (i.e. those reserves that reflect a contribution from the Consolidated Fund). The Revaluation Reserve reflects the change in asset values that have not been recognised as income or expenditure. The General Fund represents the total assets less liabilities of a department, to the extent that the total is not represented by other reserves and financing items.

£'000

| | Note | General Fund | Revaluation Reserve | Pension Reserve | Total Reserves |
|---|---|---|---|---|---|
| **Balance at 31 March 2014** | | **2,688,727** | **16,633** | **38,962** | **2,744,322** |
| Comprehensive Net Expenditure | SOCNE | (30,898,285) | 9 | (51,490) | (30,949,766) |
| Non cash charges - auditor's remuneration | 4 | 475 | - | - | 475 |
| Local share (recognition through reserves) | 4 | 10,761,083 | - | - | 10,761,083 |
| Transfers between reserves | | (4,619) | (27) | 4,646 | - |
| **Total recognised income and expenses for 2014-15** | | **(20,141,346)** | **(18)** | **(46,844)** | **(20,188,208)** |
| Net Parlimentary Funding | | 20,879,645 | - | - | 20,879,645 |
| CFERs payable to the Consolidated Fund | SoPS4.1 | (167,829) | - | - | (167,829) |
| **Sub Total** | | **20,711,816** | **-** | **-** | **20,711,816** |
| **Balance at 31 March 2015** | | **3,259,197** | **16,615** | **(7,882)** | **3,267,930** |
| Comprehensive Net Expenditure | SOCNE | (28,062,531) | (2) | 47,075 | (28,015,458) |
| Non cash charges - auditor's remuneration | 4 | 441 | - | - | 441 |
| Local share (recognition through reserves) | 4 | 11,372,020 | - | - | 11,372,020 |
| Transfers between reserves | | 160,241 | (76) | (160,165) | - |
| **Total recognised income and expenses for 2015-16** | | **(16,529,829)** | **(78)** | **(113,090)** | **(16,642,997)** |
| Net Parliamentary Funding | | 18,811,911 | - | - | 18,811,911 |
| CFERs payable to the consolidated fund | SoPS4.1 | (173,580) | - | - | (173,580) |
| **Sub Total** | | **18,638,331** | **-** | **-** | **18,638,331** |
| **Balance at 31 March 2016** | | **5,367,699** | **16,537** | **(120,972)** | **5,263,264** |

The Notes on pages 83 to 103 form part of these accounts.

# Core Department and Agency Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2016

£'000

| | Note | General Fund | Revaluation Reserve | Pension Reserve | Total Reserves |
|---|---|---|---|---|---|
| **Balance at 31 March 2014** | | **73,803** | **16,641** | **58** | **90,502** |
| Comprehensive Net Expenditure | SOCNE | **(32,343,893)** | **7** | **45** | **(32,343,841)** |
| Non cash charges - auditor's remuneration | | 475 | - | - | 475 |
| Local share (recognition through reserves) | 4 | 10,761,083 | - | - | 10,761,083 |
| Transfers between reserves | | 26 | (26) | - | - |
| **Total recognised income and expenses for 2014-15** | | **(21,582,309)** | **(19)** | **45** | **(21,582,283)** |
| Net Parlimentary Funding | | 20,879,645 | - | - | 20,879,645 |
| CFERs payable to the Consolidated Fund | SoPS4.1 | (167,829) | - | - | (167,829) |
| **Sub Total** | | **20,711,816** | **-** | **-** | **20,711,816** |
| | | | | | |
| **Balance at 31 March 2015** | | **(796,690)** | **16,622** | **103** | **(779,965)** |
| Comprehensive Net Expenditure | SOCNE | **(29,801,543)** | | **33,380** | **(29,768,163)** |
| Non cash charges - auditor's remuneration | | 441 | - | - | 441 |
| Local share (recognition through reserves) | 4 | 11,372,020 | - | - | 11,372,020 |
| Transfers between reserves | | 157,490 | (76) | (157,414) | - |
| **Total recognised income and expenses for 2015-16** | | **(18,271,592)** | **(76)** | **(124,034)** | **(18,395,702)** |
| Net Parliamentary Funding | | 18,811,911 | - | - | 18,811,911 |
| CFERs payable to the consolidated fund | SoPS4.1 | (173,580) | - | - | (173,580) |
| **Sub Total** | | **18,638,331** | **-** | **-** | **18,638,331** |
| | | | | | |
| **Balance at 31 March 2016** | | **(429,951)** | **16,546** | **(123,931)** | **(537,336)** |

The Notes on pages 83 to 103 form part of these accounts.

# Notes to the Departmental Accounts

## Note 1. Statement of Accounting Policies

### 1. General

These consolidated financial statements have been prepared in accordance with the Accounts Direction issued by HM Treasury under section 5 (2) of the Government Resources and Accounts Act 2000.

The accounting policies adopted are in accordance with the 2015-16 FReM issued by HM Treasury and apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the departmental Group for the purpose of giving a true and fair view has been selected.

As a result of the HMT Simplifying and Streamlining Accounts project, notes to the accounts relating to immaterial account areas have been removed this year.

### 2. Basis of consolidation

These Financial Statements consolidate those of the core Department, the Department's Executive Agency (PINS) and those Arms Length Bodies (ALBs) which fall within the departmental boundary as defined by the FReM; these bodies make up the 'departmental Group'. The Department for Communities and Local Government is the ultimate parent of the departmental Group and it results, along with those of the Department's Executive Agency (PINS), are presented in columns labelled 'Core Department & Agency'. Transactions between, and balances with, entities included in the departmental Group are eliminated. A list of all those entities within the departmental boundary is given in Note 22.

### 3. Changes in accounting policies

The Department has assessed the following standards and amendments that have been issued but are not yet effective and determined not to adopt them before the effective date:

- IFRS 9 Financial Instruments – effective from 2018-19. The new standard simplifies the classification and measurement of financial assets as well as addressing how impairments should be calculated and reported. The standard is expected to result in the Department's available for sale assets continuing to be accounted for at fair value, but with changes in fair value being recognised in net expenditure. This would result in the elimination of the fair value reserve (included within the general fund balance) and increased volatility in net expenditure. The IFRS 9 impairment model is expected to bring forward the recognition of losses on financial assets that are subject to the new impairment model.
- IFRS 16 Leases – effective from 2019-20. The standard largely removes the distinction between operating and finance leases for lessees by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The most significant effect of the new requirements will therefore be an increase in lease assets and liabilities on the statement of financial position.

  IFRS 16 and IFRS 9 have yet to be endorsed by the EU and their application in the public sector context has yet to be confirmed by the FReM. There is therefore significant uncertainty about how the standards may affect central government departments.

- IFRS 15 Revenue from Contracts with Customers – effective from 2018-19. Its application in the public sector context has yet to be interpreted by the FReM. However, the new standard is unlikely to have a material impact on the Department.

### 4. Non–current assets (excluding trade and other receivables)

Non-current assets are held at current value in existing use and are depreciated/amortised on a straight line basis over their estimated useful lives. The core Department's capitalisation threshold is £5,000. Other entities within the Group use capitalisation thresholds between £1,000 and £5,000 – this has no material impact on the asset values reported in these accounts. There is no threshold for land assets and they are not depreciated.

### 5. Inventories

HCA's property/development assets, consisting of land and buildings, are valued in accordance with IAS2. A valuation of the whole portfolio is carried out as at each reporting date by both internal and external qualified valuers, with independent external valuers appointed for the majority of the portfolio's value and also to value complex properties. In all cases valuations are in accordance with RICS Valuation - Professional Standards (9th Edition) published by the Royal Institution of Chartered Surveyors

A receivable, (net of VAT) from the disposal of development property assets is recognised when there is a legally binding sale agreement, which has become unconditional and irrevocable by the end of the reporting period, subject to any provisions necessary to cover residual commitments relating to the property.

Claims for payment to 2007-13 ERDF projects are initially charged against work in progress and only recognised as an expense once certified as compliant with the ERDF Regulations, such that the related ERDF income can be recognised. Where any amounts charged to work in progress subsequently fail certification, recovery of the cost is sought from projects. Further details about the ERDF balances included in these accounts can be found in Annex B.

### 6. Financial Assets

The Department's financial assets are classified as either available for sale assets or loans and receivables, in line with IAS 39. See Note 15 for more information.

### 7. Principal Civil Service Pension Scheme

Past and present employees of the core Department and Agency are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). This comprises several schemes which are unfunded defined benefit schemes with varying contribution rules and rates. The Department recognises the expected cost of employers' contributions over the period during which it benefits from employees' services by payments to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS and not recognised in these accounts.

For details of other pension schemes DCLG holds, please see Note 14. Employees of ALBs are generally members of funded defined benefit schemes. More details of individual schemes are available in the annual accounts of the bodies concerned.

### 8. Grants payable

Grants made by the Department are recorded as expenditure in the period that the underlying event or activity giving entitlement to the grant occurs, or with unringfenced grants on the occurrence of such other event giving rise to entitlement.

Grant-in-Aid payments from the core Department to ALBs are paid only when the need for cash has been demonstrated by the body concerned. ALBs treat receipts of Grant in Aid as financing in accordance with the FReM. These transactions are eliminated on consolidation.

Grant payments may need to be recovered from recipients for a variety of reasons depending on the grant conditions. Where recoveries are made income is recognised at the point that the invoice, or other notice requiring repayment, has been issued.

Grant expenditure and income in respect of Business Rates is also recognised at the point at which eligibility is determined. For the accounting year, Business Rates income is determined via NNDR1 claim forms submitted by local authorities and the associated expenditure, including the notional charge for the Local Share, and income are recognised once these claim forms are approved. The amounts recognised also include final adjustments to prior years' figures where eligibility has been confirmed by inclusion of audited figures in local authority NNDR3 returns.

## Note 2. Operating costs by operating segment

Activities in respect of Finance and Corporate Services, Strategy, Communications & Private Office are not reported as a segment as these are all administrative functions, expenditure is not allocated and they do not meet the specified criteria of a reportable segment in line with IFRS 8 because they do not directly impact on performance. It would not be appropriate to apportion administration costs to the operating segments below because operating decision makers do not receive such information and to provide an arbitrary apportionment below would not be of use to the reader.

Net programme expenditure against these segments is shown in the following table. Programme expenditure on 'Research, Data and Trading Funds' and 'DCLG staff, buildings and infrastructure' (Estimate Rows E and F in the Estimate) and Administration expenditure is not allocated to segments and these form the reconciling items in Note 2.1.

The composition of reportable segments has changed in 2015-16 because of changes in the structure of the Department. The corresponding information for 2014-15 has been restated.

£'000

| | | | | | | **2015-16** | | | | | **2014-15** *restated* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | **Local Government and Public Services** | **Troubled Families** | **Housing and Planning** | **De-centralisation and Growth** | **Total** | **Local Government and Public Services** | **Troubled Families** | **Housing and Planning** | **De-centralisation and Growth** | **Total** |
| Gross Expenditure | SoPS1.1 | 27,557,827 | 142,335 | 2,249,256 | 1,790,036 | 31,739,454 | 30,415,614 | 152,854 | 2,590,796 | 1,543,151 | 34,702,415 |
| Income | SoPS1.1 | (2,780,368) | (70,000) | (407,150) | (339,617) | (3,597,135) | (3,224,808) | (25,000) | (128,809) | (462,195) | (3,840,812) |
| **Net Expenditure** | | **24,777,459** | **72,335** | **1,842,106** | **1,450,419** | **28,142,319** | **27,190,806** | **127,854** | **2,461,987** | **1,080,956** | **30,861,603** |

The Department does not consider that assets and liabilities can be meaningfully allocated to segments and therefore manages and reports on assets and liabilities as a single block. Therefore, in accordance with IFRS 8, no breakdown of assets and liabilities by segment is given.

### 2.1 Reconciliation between operating segments and CSoCNE

£'000

| | Note | **2015-16 Total** | **2014-15 Total** |
|---|---|---|---|
| **Total net expenditure reported for operating segments** | 2 | 28,142,319 | 30,861,603 |
| Reconciling items: | | | |
| Income | | (312,155) | (268,924) |
| Expenditure | | 185,294 | 357,087 |
| Prior period adjustment | | | |
| **Total net expenditure per Statement of Comprehensive Net Expenditure** | SoCNE | **28,015,458** | **30,949,766** |

## Note 3. Staff Costs

£'000

| | | **2015-16** | | **2014-15** | |
|---|---|---|---|---|---|
| | **Notes** | **Core Department & Agency** | **Departmental Group** | **Core Department & Agency** | **Departmental Group** |
| **Staff Costs** | | 130,691 | 210,133 | 131,048 | 203,045 |

The accountability report, page 53, contains a full breakdown of staff costs.

## Note 4. Operating Expenditure

| | | | | | £'000 |
|---|---|---|---|---|---|
| | | | 2015-16 | | 2014-15 |
| | Notes | Core Department & Agency | Departmental Group | Core Department & Agency | Departmental Group |
| **Non-Cash Items** | | | | | |
| Non Operating Expenditure - Audit Commission Absorption Transfers | | 157,414 | 157,414 | - | - |
| Capital Grant in Kind Expense - Asset Transfers | | 221 | 221 | 1,005 | 1,005 |
| Depreciation | 6 | 5,957 | 6,880 | 6,592 | 7,792 |
| Amortisation | 6 | 1,516 | 3,344 | 2,463 | 4,327 |
| Impairment of assets | | (3,797) | 52,466 | (5,550) | 91,354 |
| Revaluation of Assets | | (1,298) | (1,298) | (17,599) | (17,599) |
| Loss on Disposal of Assets | | 7,784 | 7,789 | 38 | 257 |
| Write Offs | | 1,241 | 1,241 | - | - |
| ERDF Write Off and Disallowances | | (11,132) | (11,132) | (7,825) | (7,825) |
| ERDF Exchange Rate Losses (Unrealised) | | 10,274 | 10,274 | - | - |
| Auditors Remuneration | | 441 | 441 | 475 | 475 |
| Movement in Provisions | 13 | 15,695 | 28,529 | 101,012 | 100,878 |
| Provision for Bad and Doubtful Debts | | 3,379 | 4,348 | 221 | 2,235 |
| Net Interest on Pension Scheme Liabilities | 14 | 5,342 | 5,253 | 70 | (2,324) |
| Admin Charge on Pension Assets | | 939 | 1,035 | - | 83 |
| Share of Loss of Joint Ventures and Associates | 7 | - | (396) | - | (4,668) |
| Notional Costs | | 120 | 120 | - | - |
| Local share (local authorities) | | 11,372,020 | 11,372,020 | 10,761,083 | 10,761,083 |
| Other Non Cash Costs | | 10,589 | 10,589 | 8,066 | 8,066 |
| **Total Non Cash Items** | | **11,576,705** | **11,649,138** | **10,850,051** | **10,945,139** |
| **Cash Items** | | | | | |
| Rentals Under Operating Leases | | 522 | 1,597 | 535 | 1,173 |
| Accommodation Including Rentals Under Operating Leases | | 38,054 | 47,777 | 44,252 | 52,376 |
| Research and Development | | 9,557 | 9,557 | 6,874 | 6,874 |
| Legal and Professional Services | | 179,057 | 190,790 | 163,782 | 169,974 |
| Consultancy | | 2,000 | 2,555 | 1,155 | 1,295 |
| Marketing and Communications | | 6,137 | 6,354 | 2,482 | 2,841 |
| Training & Development | | 3,216 | 3,856 | 2,066 | 2,583 |
| Auditor's Remuneration | | 52 | 488 | - | 406 |
| IT Expenditure | | 43,698 | 48,184 | 40,713 | 45,045 |
| Travel and Subsistence | | 3,547 | 6,120 | 3,665 | 6,511 |
| Early Retirement and Voluntary Exit Costs | | 14,766 | 14,766 | (3,221) | (3,221) |
| ERDF Financial Corrections | | 4,278 | 4,278 | 1,568 | 1,568 |
| ERDF Exchange Rate Losses (Realised) | | - | - | 30,998 | 30,998 |
| Interest Payable | | 7,495 | 7,495 | 5,860 | 5,875 |
| Taxation | | 5,047 | (25,236) | 7,942 | 5,784 |
| ERDF Grants | | 296,369 | 296,369 | 459,121 | 459,121 |
| Revenue Support Grant and PFI Grant | | 9,775,851 | 9,775,851 | 12,937,294 | 12,937,294 |
| Business Rates Retention (top ups) | | 2,565,783 | 2,565,783 | 3,166,230 | 3,166,230 |
| Other Capital Grants to Local Authorities | | 2,657,641 | 2,702,687 | 1,877,728 | 2,179,914 |
| Other Current Grants to Local Authorities | | 4,126,160 | 4,131,854 | 3,553,088 | 3,555,247 |
| Other Grants | | 263,035 | 525,861 | 538,999 | 1,229,893 |
| Other Cash Costs | | (66,476) | (50,705) | 33,988 | 56,727 |
| **Total Cash Items** | | **19,935,789** | **20,266,281** | **22,875,119** | **23,914,508** |
| **Total** | | **31,512,494** | **31,915,419** | **33,725,170** | **34,859,647** |

The external auditors total group fees (notional and cash) for all statutory audit work were £795k. Of the £488k cash charge for Auditor's remuneration, £354k relates to external audit fees and the remaining £134k relates to other assurance work not performed by external audit.

## Note 5. Operating Income

£'000

| | | 2015-16 | | 2014-15 | |
|---|---|---|---|---|---|
| | Notes | Core Department & Agency | Departmental Group | Core Department & Agency | Departmental Group |
| **Non Cash Items** | | | | | |
| Capital Grant in Kind Income - Asset Transfers | | - | 3,795 | - | 7,700 |
| Gain on sale of Non Current Assets/Assets Held for Sale | | 10 | 114,442 | 1,239 | 44,274 |
| Unwinding of Discount - Financial Asset | | 7,790 | 11,882 | 1,215 | 5,402 |
| ERDF Exchange Rate Gains (unrealised) | | - | - | 22,059 | 22,059 |
| Notional Income | | 120 | 120 | - | - |
| Recognition of available for sale asset | 8 | 199,249 | 199,249 | | |
| **Total Non Cash Items** | | **207,169** | **329,488** | **24,513** | **79,435** |
| **Cash Items** | | | | | |
| CFER Income | | 173,580 | 173,580 | 167,829 | 167,829 |
| Grant Income | | 356,787 | 396,726 | 37,326 | 81,808 |
| ERDF Grant Income | | 307,297 | 312,876 | 459,121 | 459,121 |
| Business Rates Retention (tariff) | | 2,554,834 | 2,554,834 | 3,155,487 | 3,155,487 |
| Goods and Services | | 28,227 | 28,609 | 28,414 | 28,684 |
| Accommodation | | 24,244 | 33,543 | 20,462 | 30,893 |
| Fees | | 9,418 | 14,156 | 11,310 | 16,154 |
| ERDF Exchange Rate Gains (realised) | | 12,183 | 12,183 | - | - |
| Interest and Dividends | | 2,780 | 27,828 | 2,960 | 29,545 |
| ERDF Match Income | | 1,247 | 1,247 | - | - |
| Miscellaneous | | 11,910 | 24,220 | 50,930 | 60,780 |
| **Total Cash Items** | | **3,482,507** | **3,579,802** | **3,933,839** | **4,030,301** |
| **Total** | | **3,689,676** | **3,909,290** | **3,958,352** | **4,109,736** |

## Note 6. Property, plant and equipment and Intangible assets

| | Land & Buildings | PPE | Assets under Construction | Intangibles | £'000 Total |
|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | |
| At 1 April 2015 | 87,843 | 23,017 | 6,633 | 45,551 | 163,044 |
| Additions | 784 | 661 | 3,575 | 2,666 | 7,686 |
| Impairments | 846 | - | - | (8) | 838 |
| Revaluations | - | (2) | - | - | (2) |
| Disposals | (27,333) | (2,797) | - | (9,595) | (39,725) |
| Transfers | - | (437) | - | - | (437) |
| **At 31 March 2016** | **62,140** | **20,442** | **10,208** | **38,614** | **131,404** |
| **Depreciation/Amortisation** | | | | | |
| At 1 April 2015 | 21,056 | 18,946 | - | 36,398 | 76,400 |
| Charged in year | 4,956 | 1,924 | - | 3,344 | 10,224 |
| Impairments | (42) | - | - | - | (42) |
| Disposals | (7,059) | (2,745) | - | (9,575) | (19,379) |
| Transfers | - | (216) | - | - | (216) |
| **At 31 March 2016** | **18,911** | **17,909** | **-** | **30,167** | **66,987** |
| **Net book value:** | | | | | |
| **31-Mar-16** | **43,229** | **2,533** | **10,208** | **8,447** | **64,417** |
| **31-Mar-15** | **66,787** | **4,071** | **6,633** | **9,153** | **86,644** |
| **Asset Financing:** | | | | | |
| Owned | 6,819 | 2,090 | 10,208 | 8,447 | 27,564 |
| Financed leased | 36,410 | 443 | - | - | 36,853 |
| **Net book value at 31 March 2016** | **43,229** | **2,533** | **10,208** | **8,447** | **64,417** |
| **Of the total:** | | | | | |
| Core Department | 40,203 | 1,334 | 10,208 | 3,742 | 55,487 |
| Agency | - | 174 | - | 1,827 | 2,001 |
| Designated bodies | 3,026 | 1,025 | - | 2,878 | 6,929 |
| **Net book value at 31 March 2016** | **43,229** | **2,533** | **10,208** | **8,447** | **64,417** |

There are no donated assets within the Department.

£'000

| | Land & Buildings | PPE | Assets under Construction | Intangibles | Total |
|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | |
| At 1 April 2014 | 87,950 | 35,546 | 6,633 | 57,621 | 187,750 |
| Additions | 1,052 | 1,213 | - | 3,716 | 5,981 |
| Impairments | 3,820 | - | - | - | 3,820 |
| Revaluations | - | 9 | - | - | 9 |
| Disposals | (4,219) | (11,528) | - | (15,786) | (31,533) |
| Reclassifications | - | - | - | - | - |
| Transfers | (760) | (2,223) | - | - | (2,983) |
| **At 31 March 2015** | **87,843** | **23,017** | **6,633** | **45,551** | **163,044** |
| | | | | | |
| **Depreciation/Amortisation** | | | | | |
| At 1 April 2014 | 20,957 | 29,259 | - | 47,646 | 97,862 |
| Charge in year | 5,113 | 2,679 | - | 4,327 | 12,119 |
| Impairments | (182) | - | - | - | (182) |
| Revaluations | - | (1) | - | - | (1) |
| Disposals | (4,219) | (11,482) | - | (15,575) | (31,276) |
| Reclassifications | - | - | - | - | - |
| Transfers | (613) | (1,509) | - | - | (2,122) |
| **At 31 March 2015** | **21,056** | **18,946** | **-** | **36,398** | **76,400** |
| **Net book value:** | | | | | |
| **31-Mar-15** | **66,787** | **4,071** | **6,633** | **9,153** | **86,644** |
| **31-Mar-14** | **66,993** | **6,287** | **6,633** | **9,975** | **89,888** |
| **Asset Financing:** | | | | | |
| Owned | 7,122 | 3,326 | 6,633 | 9,153 | 26,234 |
| Finance Leased | 59,665 | 745 | - | - | 60,410 |
| **Net book value at 31 March 2015** | **66,787** | **4,071** | **6,633** | **9,153** | **86,644** |
| | | | | | |
| **Of the total:** | | | | | |
| Core Department | 63,748 | 2,484 | 6,633 | 4,545 | 77,410 |
| Agency | - | 326 | - | 1,521 | 1,847 |
| Designated bodies | 3,039 | 1,261 | - | 3,087 | 7,387 |
| **Net book value at 31 March 2015** | **66,787** | **4,071** | **6,633** | **9,153** | **86,644** |

## Note 7. Investments

Shares & Equity investments relate to investments in joint ventures and are accounted for in accordance with IAS 28 via the Equity method. Public Dividend Capital relates to the financing of the QEII conference centre. The remaining investments in the table are financial assets under IAS 39, categorised as Loans and Receivables.

£'000

| | Shares & Equity Investments | Investment Funds | Private Sector Loans | Public Sector Loans | Public Dividend Capital | Total Investments |
|---|---|---|---|---|---|---|
| **Opening balance at 1 April 2014** | **14,141** | **6,836** | **316,150** | **25,193** | **821** | **363,141** |
| Additions | - | - | 284,093 | 13,470 | - | 297,563 |
| Write down / Impairments | - | 1,544 | (3,059) | - | - | (1,515) |
| Repayments | - | - | (195,199) | (4,787) | - | (199,986) |
| Revaluation | - | - | 989 | - | - | 989 |
| Profit / (loss) on JV or | 4,668 | - | - | - | - | 4,668 |
| Transfer to receivables < 1year | - | - | 101,898 | (12,921) | - | 88,977 |
| **Balance at 31 March 2015** | **18,809** | **8,380** | **504,872** | **20,955** | **821** | **553,837** |
| Additions | 3,323 | - | 198,414 | 75,263 | - | 277,000 |
| Write down/ Impairments | - | 2,948 | (6,477) | - | - | (3,529) |
| Repayments | - | - | (266,218) | (34,744) | - | (300,962) |
| Unwinding of Discount/Revaluation | - | - | 7,559 | - | - | 7,559 |
| Disposal | (10,000) | - | - | - | - | (10,000) |
| Profit / (loss) on JV or | 396 | - | - | - | - | 396 |
| Transfer to receivables < 1year | - | - | 47,131 | 1,337 | - | 48,468 |
| **Balance at 31 March 2016** | **12,528** | **11,328** | **485,281** | **62,811** | **821** | **572,769** |
| **Of which:** | | | | | | |
| Core Department | 5,000 | 11,328 | 2,000 | 38,343 | 821 | 57,492 |
| Agencies | - | - | - | - | - | - |
| Designated bodies | 7,528 | - | 483,281 | 24,468 | - | 515,277 |

## Note 8. Available for sale financial assets

Available for sale financial assets include assets of the HCA which represents their interests in housing developments.

£'000

| | 2015-16 | | 2014-15 | |
|---|---|---|---|---|
| | Core Department & Agency | Departmental Group | Core Department & Agency | Departmental Group |
| **Cost or valuation** | | | | |
| **Opening balance at 1 April** | | **2,818,150** | | **1,549,373** |
| Additions | 199,249 | 1,850,711 | - | 1,292,472 |
| Write offs | - | (30,221) | - | (9,203) |
| Disposals | (11,502) | (235,263) | - | (89,165) |
| Revaluations | - | 224,381 | - | 74,673 |
| **At 31 March** | **187,747** | **4,627,758** | **-** | **2,818,150** |

## Note 9. Inventories

Inventories in respect of land and buildings relate to property and development land assets.

£'000

| | 2015-16 | | | 2014-15 |
|---|---|---|---|---|
| | **Core Department & Agency** | **Departmental Group** | **Core Department & Agency** | **Departmental Group** |
| **Land and buildings** | | | | |
| **Opening balance at 1 April** | **-** | **514,822** | **-** | **542,666** |
| Prior period adjustment | - | - | - | - |
| **Restated balance at 1 April** | **-** | **514,822** | **-** | **542,666** |
| Additions | - | 132,130 | - | 191,949 |
| Disposals | - | (82,443) | - | (135,155) |
| Impairments | - | (19,596) | - | (84,638) |
| **Closing balance Land and buildings as at 31 March** | **-** | **544,913** | **-** | **514,822** |
| **ERDF Work in Progress** | | | | |
| **Opening balance as at 1 April** | 86,884 | 86,884 | 64,484 | 64,484 |
| Payments to Projects | 470,222 | 470,222 | 436,862 | 436,862 |
| Disposals | (265,702) | (265,702) | (414,462) | (414,462) |
| **Closing balance ERDF as at 31 March** | **291,404** | **291,404** | **86,884** | **86,884** |
| **Total inventory closing balance as at 31 March** | **291,404** | **836,317** | **86,884** | **601,706** |

## Note 10. Trade and other receivables

£'000

| | 2015-16 | | 2014-15 | |
|---|---|---|---|---|
| | Core Department & Agency | Departmental Group | Core Department & Agency | Departmental Group |
| **Amount falling due within one year:** | | | | |
| Trade receivables | 4,080 | 66,084 | 2,111 | 57,743 |
| Deposits and advances | - | 60 | - | 61 |
| VAT receivables | 2,267 | 2,519 | 1,433 | 10,112 |
| Other receivables | 106,809 | 136,713 | 30,458 | 75,432 |
| ERDF accrued income | 189,727 | 189,727 | 212,254 | 212,254 |
| Prepayments and accrued income | 79,633 | 101,619 | 67,537 | 85,464 |
| Current asset investments | - | 118,674 | - | 167,142 |
| **Sub Total** | **382,516** | **615,396** | **313,793** | **608,208** |
| **Amounts falling due after more that one year:** | | | | |
| Trade receivables | - | 135,273 | - | 114,556 |
| Other receivables | 12,046 | 30,035 | - | 25,173 |
| ERDF Advances | 4,287 | 4,287 | 10,489 | 10,489 |
| ERDF Accrued Income | - | - | - | - |
| Prepayments and accrued income | 1,204 | 1,204 | 1,639 | 1,639 |
| **Sub Total** | **17,537** | **170,799** | **12,128** | **151,857** |
| **Total** | **400,053** | **786,195** | **325,921** | **760,065** |

## Note 11. Cash and cash equivalents

£'000

| | 2015-16 | | 2014-15 | |
|---|---|---|---|---|
| | Core Department & Agency | Departmental Group | Core Department & Agency | Departmental Group |
| Balance at 1 April | 450,252 | 690,430 | 272,187 | 377,008 |
| Net change in cash and cash equivalent balances | (58,263) | (155,728) | 178,065 | 313,422 |
| **Cash Balance at 31 March** | **391,989** | **534,702** | **450,252** | **690,430** |
| **The following balances at 31 March were held at:** | | | | |
| Other bank and cash | - | 2,300 | - | 2,850 |
| Commercial banks and cash in hand | - | 36,463 | - | 10,609 |
| Government Banking Service | 199,342 | 303,292 | 256,843 | 483,562 |
| Government Banking Service (ERDF) | 192,647 | 192,647 | 193,409 | 193,409 |
| **Balance at 31 March** | **391,989** | **534,702** | **450,252** | **690,430** |

## Note 12. Trade and other payables

£'000

| | 2015-16 | | 2014-15 | |
|---|---|---|---|---|
| | Core Department & Agency | Departmental Group | Core Department & Agency | Departmental Group |
| **Amounts falling due within one year:** | | | | |
| Taxation and Social Security | 2,772 | 4,370 | 2,659 | 4,233 |
| Trade payables | 2,264 | 170,577 | 5,381 | 270,341 |
| Other payables | 39,518 | 44,675 | 26,939 | 29,584 |
| Advances from Contingency Fund | - | - | 358 | 358 |
| Accruals | 738,517 | 748,609 | 608,531 | 731,078 |
| Finance lease | 9,134 | 9,134 | 3,050 | 3,050 |
| Deferred income | 998 | 22,440 | 1,572 | 19,987 |
| ERDF Deferred income | 208,707 | 208,707 | 326,649 | 326,649 |
| Amount issued from the Consolidated Fund for supply but not spent | 350,620 | 350,620 | 412,725 | 412,725 |
| Consolidated fund extra receipts to be paid to the Consolidated Fund | | | | |
| -received | 41,369 | 41,369 | 37,357 | 37,357 |
| -receivable | - | - | - | - |
| **Sub Total** | **1,393,899** | **1,600,501** | **1,425,221** | **1,835,362** |
| **Amounts falling due after more that one year:** | | | | |
| Finance lease | 96,765 | 96,765 | 105,899 | 105,899 |
| ERDF Deposits held | 297,860 | 297,860 | 170,552 | 170,552 |
| Other payables | - | 2,273 | - | - |
| Deferred income | 4,953 | 4,953 | 5,666 | 15,775 |
| **Sub Total** | **399,578** | **401,851** | **282,117** | **292,226** |
| **Total** | **1,793,477** | **2,002,352** | **1,707,338** | **2,127,588** |

## Note 13. Provisions for liabilities and charges

£'000

| | 2015-16 | | 2014-15 | |
|---|---|---|---|---|
| | Core Department & Agency | Departmental Group | Core Department & Agency | Departmental Group |
| **Open balance at 1 April** | 122,504 | 156,001 | 36,372 | 79,988 |
| Increase | 18,391 | 31,920 | 102,609 | 103,417 |
| Utilisation | (97,521) | (110,294) | (14,880) | (24,865) |
| Reversal | (2,012) | (2,389) | (1,718) | (2,303) |
| Unwinding of discount | (684) | (1,002) | 121 | (236) |
| Absorption transfers - Audit Commission | 103 | 103 | - | - |
| **Balance at 31 March** | **40,781** | **74,339** | **122,504** | **156,001** |
| Of which: | | | | |
| Current liabilities | 23,844 | 44,685 | 103,572 | 118,647 |
| Non-current liabilities | 16,937 | 29,654 | 18,932 | 37,354 |
| **Balance at 31 March** | **40,781** | **74,339** | **122,504** | **156,001** |

(i) Early departure provisions

The Department and its Agency meets the additional costs of benefits beyond the normal Principal Civil Service Pension Scheme benefit for employees who retire early. An amount is paid annually to the Principal Civil Service Pension Scheme for the period between early departure and the normal retirement date. The Department and Agency provides for this in full when the early retirement becomes a binding liability.

(ii) Other provisions

In the core Department, these provisions include claims made by staff and third parties against the Department. The provision is calculated based on general experience of what the maximum for each type of claim is worth. Provisions are also made for dilapidations to comply with lease clauses for buildings which are occupied by the Department. The Department's dilapidation provisions are calculated based on the estimated cost of meeting future expenditure, in order to settle obligations in respect of lease clauses.

*Analysis of expected timing of discounted cashflows by type*

£'000

| | Early Retirement | Other | Total |
|---|---|---|---|
| Not later than one year | 3,462 | 115,185 | 118,647 |
| Later than one year and not later than five years | 5,426 | 20,332 | 25,758 |
| Later than five years | 766 | 10,830 | 11,596 |
| **Balance at 31 March 2015** | **9,654** | **146,347** | **156,001** |
| Not later than one year | 2,761 | 41,924 | 44,685 |
| Later than one year and not later than five years | 4,062 | 17,410 | 21,472 |
| Later than five years | - | 8,182 | 8,182 |
| **Balance at 31 March 2016** | **6,823** | **67,516** | **74,339** |

## Note 14. Pensions

The Department is responsible for the Firefighters Pension Scheme (1992), an unfunded scheme, and the Audit Commission Pension Scheme, a funded scheme. The liabilities of these schemes are represented below in the Core Department & Agencies column. The staff of NDBPs are members of a number of different pension schemes; full details are available in the accounts of the bodies concerned and the liabilities for these schemes are included in the departmental Group column below.

£'000

| | 2015-16 | | 2014-15 | |
|---|---|---|---|---|
| | Core Department & Agencies | Departmental Group | Core Department & Agencies | Departmental Group |
| **Reconciliation of defined benefit obligation** | | | | *restated* |
| **Opening balance** | 1,632 | 801,119 | 1,756 | 670,866 |
| Current service cost | - | 15,135 | - | 11,395 |
| Interest charges | 36,502 | 62,666 | 70 | 29,440 |
| Contribution by members | - | 5,376 | - | 3,435 |
| Remeasurement of (gains) /losses on liability | (69,152) | (129,030) | (45) | 105,934 |
| Past service cost/(gains) | - | 1,005 | - | 102 |
| Transfers | - | (444) | - | (40) |
| Absorption transfers - Audit Commission Pension Scheme | 1,100,231 | 1,100,231 | - | - |
| **Benefits paid** | | | | |
| Funded benefits paid | (24,402) | (43,985) | - | (19,195) |
| Unfunded benefits paid | (140) | (805) | (149) | (818) |
| **Closing defined benefit obligation** | **1,044,671** | **1,811,268** | **1,632** | **801,119** |
| | | | | |
| **Reconciliation of fair value of employer asset** | | | | |
| **Opening balance** | - | (794,753) | - | (705,901) |
| Interest income on scheme asset | (31,160) | (57,413) | - | (31,764) |
| Admin Charge on Pension Assets | 939 | 970 | - | 83 |
| Contributions by members | - | (5,376) | - | (3,435) |
| Contributions by employer | - | (14,017) | - | (18,527) |
| Remeasurement of (gains)/losses on asset | 35,772 | 81,955 | - | (54,444) |
| (Losses)/gains on curtailment | - | 513 | - | - |
| Absorption transfers - Audit Commission Pension Scheme | (942,817) | (942,815) | - | - |
| Assets distributed on settlement | 24,402 | 44,427 | - | 19,235 |
| **Closing fair value of employer asset** | **(912,864)** | **(1,686,509)** | **-** | **(794,753)** |
| | | | | |
| **Closing Net Pension Liability** | **131,807** | **124,759** | **1,632** | **6,366** |
| of which: | | | | |
| **Funded** | 130,434 | 113,402 | - | (6,587) |
| **Unfunded** | 1,373 | 11,357 | 1,632 | 12,953 |

### *Audit Commission Pension Scheme (ACPS)*

#### Outline of the ACPS

On 1 April 2015, the Department was transferred a portion of Audit Commission assets and liabilities that remained once the body was closed. The largest component of this included the balances relating to the ACPS.

The ACPS is a defined benefit scheme. The scheme is a Registered Pension Scheme under the provisions of Schedule 36 of the Finance Act 2004. The provision of a Crown Guarantee takes the pension scheme out of certain regulatory provisions that would otherwise apply.

The valuation of the scheme liabilities as at 31 March 2016 was completed by the Department's independent actuaries using the projected unit method.

**Financial overview of the ACPS**

The pension scheme assets are held in a separate trustee-administered fund to meet long-term pension liabilities to past employees. The Scheme's assets have been invested as follows:

| | | £'000 |
|---|---|---|
| **Fair Value of Scheme Assets** | **2015-16** | **2014-15** |
| Diversified Growth Funds | 684,648 | 744,826 |
| Liability Driven Investment | 228,216 | 188,563 |
| Cash | - | 9,428 |
| **Total** | **912,864** | **942,817** |

Overall, the Scheme's assets have decreased in value over the year to 31 March 2016, reflecting the net cash outflow over the year, and the reduction in the value of LDI assets. The entire growth portfolio is held in DGFs, in order to reduce funding level volatility whilst targeting a similar investment return to equities. The LDI portfolio aims to hedge around 50% of the interest rate risk and 70% of the inflation risk of the scheme's liabilities.

The net pension liability for the ACPS reduced from £157.4 million (absorption transfers) to £130.4 million over the year, with the decrease in the scheme's assets offsetting the significant decrease in the value of the scheme's liabilities. The overall decrease in the scheme's liabilities is the combination of a number of factors.

- There has been an increase in corporate bond yields which increases the rate at which future benefit payments are being discounted and therefore decreases the scheme's liability.
- Inflation was lower than expected over the year therefore benefits are not increasing as fast as assumed, and this reduces the scheme liability.

An alternative to the projected unit method for valuing the scheme liabilities is a solvency basis. This amount represents the amount that would be required to settle the scheme liabilities at the Statement of Financial Position date rather than continuing to fund on-going liabilities of the scheme. The scheme's actuary estimates this to be £873 million.

**Principal assumptions**

The financial assumptions used for purposes of the IAS 19 calculations for the five years to 31 March 2015 are shown in the table below.

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| **Principal assumptions** | % pa | %pa | % pa | % pa | % pa |
| Rate of inflation | 3.05 | 3.2 | 3.5 | 3.55 | 3.45 |
| Rate of salary increase | n/a | n/a | 1.00[2] | 3.55[1] | 4.10 [1] |
| Discount rate for liabilities | 3.4 | 3.35 | 4.4 | 4.5 | 5 |
| Rate of increase of pensions in payment | 3.05 | 3.2 | 3.5 | 3.55 | 3.45 |
| Rate of increase of deferred pensions | 3.05 | 3.2 | 3.5 | 3.55 | 3.45 |

[1] The salary escalation had an age-related promotional salary scale in addition, and reflects the pay freeze until 1 April 2013

[2] Until 31 March 2015, nil thereafter.

The assumed life expectations on retirement at age 60 were: for males retiring today, 29 years, for females retiring today, 30 years and for males and females retiring in 20 years, 33 years.

The following table shows the impact of a change in each of the principal assumptions used to value the scheme's liabilities.

| **Assumption** | **Change in assumption** | **Impact on scheme liabilities** |
|---|---|---|
| Discount rate | Decrease by 0.5% | Increase by 11% |
| Rate of inflation | Increase by 0.5% | Increase by 10% |
| Rate of mortality | Mortality table rated down by one year | Increase by 3% |

## Note 15. Financial instruments

### Liquidity risk

The cash requirements of the Department for day-to-day operations and capital investments are met through the Estimates process and by the passing of the annual Appropriation Act. The Estimates process provides an opportunity, during the year (the Supplementary Estimate), to amend funding levels and purposes to reflect changing circumstances and unforeseen events. The Department is therefore currently exposed to limited liquidity risk. As financial instruments play a greater role in the funding of the Department this risk is likely to increase. The increased risk is being managed and mitigated by the Department via the Financial Risk Management framework which was introduced in 2014 and follows standard financial industry practices.

### Currency risk

The Department has risks arising from foreign exchange only in relation to the ERDF programme. Further details about the ERDF balances included in these accounts can be found in Annex B. The following table shows the balances held by the Department as at 31 March 2016 that are subject to exchange rate risk. (Exchange rate at 31 March 2016 £1 = €1.2616 - source Bank of England spot rate) http://www.bankofengland.co.uk/boeapps/iadb/Rates.asp?

| Currency Risks | Floating rate financial liabilities | |
|---|---|---|
| | £'000 | €'000 |
| **Total assets at 31 March 2016** | **189,727** | **239,361** |
| Total assets at 31 March 2015 | 212,254 | 293,356 |
| **Total liabilities at 31 March 2016** | **(506,567)** | **(639,085)** |
| Total liabilities at 31 March 2015 | (497,201) | (687,182) |

The liabilities balances relate to deposits from the EU for the 2007-13 and 2014-20 ERDF Programmes. The deposits will be utilised as the programmes near completion, hence the 2007-13 balance, and associated level of risk, is diminishing.

The accrued income balance represents ERDF grant payments made but yet to be claimed from the EU. These balances are fixed in Euros being the Euro equivalent of the Sterling expenditure at the time the expenditure was incurred using the 'Europa' rate.

To an extent, these balances act as a natural hedge whereby the loss that would arise on the liability balance from a weakening of Sterling would be offset by the gain on the asset balance and vice versa. This reduces but does not eliminate the risks.

The Department is currently reviewing its approach to managing its foreign exchange rate risk and exploring potential options in line with good practice observed in other government departments.

The following table illustrates the impact of changes in the sterling to Euro exchange rate and assumes the level of balances remains constant.

| Category | Balance at 31 Mar 2016 | Euro Rate at 31 Mar 2016 | Impact of rate change to | | | |
|---|---|---|---|---|---|---|
| | £'000 | | 1:1.00 | 1:1.10 | 1:1.30 | 1:1.40 |
| Assets | 189,727 | 1.2616 | £50m gain | £28m gain | £6m loss | £19m loss |
| Liabilities | (506,567) | 1.2616 | £133m loss | £74m loss | £15m gain | £50m gain |
| Net gain/loss | | | £83m loss | £46m loss | £9m gain | £31m gain |

### Market risk

The Department and HCA have completed a risk assessment for all live financial instruments exposed to market risk. Performance and changes in risk profile are monitored on a regular basis.

The HCA's results and equity are dependent upon the prevailing conditions of the UK economy, in particular UK house prices. The UK housing market affects the valuation of the Agency's non-financial assets and liabilities, especially development assets.

The HCA is also exposed to market price risk in its available for sale financial assets. These financial assets include the Agency's interests in housing units and private sector developments located in geographically diverse areas within the UK. As these assets are classified as available for sale, any market price movements are normally reflected in changes in equity, and have no effect on the reported net expenditure for the period unless an impairment is reported.

The HCA has performed a sensitivity analysis that measures the change in fair value of the financial assets held for hypothetical changes in market prices. The sensitivity analysis is based on a proportional change to all prices applied to the relevant financial instrument balances existing at the year end:

| Variable | Change | Impact on HCA reserves |
|---|---|---|
| UK House prices | +/- 10% | +£414m / -£672m |
| Development returns | +/- 10% | +£24m / -£24m |

The non linear downside risk relating to house prices reflects the impact of the mortgage provider's first charge, which disproportionately increases the estimated level of impairments when house prices reduce. The HCA Annual Report and Accounts 2015-16 provides further detail on how HCA manages both market risk and credit risk.

The Department has provided guarantees to strongly rated (low risk) Private Registered Providers (PRPs) to facilitate access to borrowing at competitive interest rates. This borrowing is then used by the borrowers to build affordable housing. The potential liabilities arising from provision of these guarantees will be subject to market risk, particularly increases in rental arrears and void properties which may have an impact on the Private Registered Providers ability to repay loans issued under the guarantee. The Department has set up a number of risk mitigations to minimise any risk derived from the Guarantees including a rigorous eligibility criteria and credit process.

**Credit Risk**

As at 31st March, the Department had approved circa £2.1 billion worth of debt finance to be raised by Affordable Housing Finance on behalf of Private Registered Providers. Of the circa £2.1 billion, £1.4 billion has been drawn down and is therefore covered by a financial guarantee issued by the Department. The accounting valuation of the guarantee is £9.8m at 31st March 2016. This valuation takes account of the liquidity reserve.

A probability weighted expected losses model is used as the basis of the accounting valuation of the guarantee. The model appraises the creditworthiness of all borrowers, maps them to the Department's Credit Rating Table and assigns them a Probability of Default (PD).

Sensitivity analysis was conducted on the model by changing both the credit rating and the assumption used regarding the size of any Loss Given Default (LGD). The testing adjusted the credit grade down by five Standard & Poor's (S&P) equivalent grades (this is very conservative as the Registered Providers industry have a history of zero defaults and are strongly rated by external rating agencies) and increased the LGD around the central estimate. Although in reality there might be some relationship between the PD and the LGD, the analysis and the underlying probability-weighted losses model treats the PD and LGD as two independent variables that are multiplied together in arriving at the financial guarantee liability. This is in line with how credit risk models generally treat these variables. The result is a range for potential losses from £4.48 million (5% LGD, Standard PD) to £98.14 million (25% LGD, High PD). When liquidity reserves are accounted for in the sensitivity analysis, the potential losses range from £1.28 million (5% LGD, Standard PD) to £80.90 million (25% LGD, High PD).

The HCA's maximum exposure to credit risk, without taking into account any security held, is the same as the carrying amount of financial assets recorded in their Annual Report and Accounts.

The nature of the credit risk arising from the HCA's most significant financial assets is summarised below:

- Receivables arise largely from disposals of development assets, generally to major developers and house builders in the private sector. These receivables are always secured by the HCA's right to retake possession of the disposed property in the event of a default by the buyer, and in appropriate cases are backed by financial guarantees.
- Available for sale financial assets relate mainly to amounts receivable individually from the private owners of housing units when their properties are sold, or amounts receivable from

various private sector developers, resulting in a broad spread of credit risk for these assets. Amounts receivable from the owners of housing units are secured by a second charge over their property.

- Four private sector developers account for 42% of development loans. A single loan accounts for 21% of infrastructure loans. 65% of other loans relate to a major public utility company and a former associated undertaking. The remainder of the loan portfolio is dispersed amongst private sector developers and local authorities. Loans are subject to ongoing review with established procedures to use, and react to, early warning signs. This enables the HCA to consider the need for more intensive management to protect the exposure.

There are no significant concentrations of credit risk in the HCA's other financial instruments.

For all financial assets excluding cash, the maximum exposure to a single counterparty at 31 March 2016 was £107.5 million, and the five largest counterparties accounted for 7% of the total balance.

Overall, the Department's credit risk profile has improved over the past year due to the improved creditworthiness of its counterparties, better quality of collateral and loan repayments.

**Interest rate risk**

The departmental Group, especially HCA, is exposed to interest rate risk on its financial assets classified as loans and receivables, where these pay interest at a variable rate. For the majority of the Department's loan portfolio, the variable element is the Reference Rate set by the EC (1.04% as at 31 March 2016). Consequently, the downside risk to the Department is limited to changes in this rate.

**Fair values**

The estimated fair values of the financial instruments held by the Department approximate to their book values at 31 March 2015 and 31 March 2016. The table shows how fair value of the Department's financial assets and liabilities has been estimated. For a reconciliation of the movements in the value of Level 2 and 3 fair value financial instruments and detail on the sensitivities of the fair values, see the HCA annual report and accounts.

| Financial Instrument | Basis of fair value estimation |
|---|---|
| Current payables and receivables (note 12 and note 10) and Public Dividend Capital (note 7) | Nominal value |
| Non-current payables and receivables (note 12 and note 10) | Discounted cost (where materially different from nominal value) |
| Affordable Housing financial guarantees liabilities | Probability weighted expected losses |
| Investments in the Coalfields Enterprise Fund and the Coalfields Growth Fund (note 7) | Fund manager revaluation |
| Available for sale financial assets relating to housing units (note 8) | Calculated with reference to movements in the ONS house price index at a regional level, being the most relevant available observable market data. This is supplemented by adjustments for experience of actual disposals since the inception of the schemes. These fair values are categorised as level 2 in the fair value hierarchy as defined by IFRS 7. |
| Available for sale financial assets relating to equity investments in private sector developments and infrastructure projects (note 8) | Calculated using cash flow forecasts for the projects concerned, discounted at rates set by HM Treasury. These fair values are therefore categorised as level 3 in the fair value hierarchy as defined by IFRS 7. |
| Other Financial Instruments | Discounted future cash flows using discount rates set by HM Treasury, or the rate intrinsic to the financial instrument if higher. |

## Note 16. Commitments under Operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

£'000

| | 2015-16 | | 2014-15 | |
|---|---|---|---|---|
| **Obligations under operating leases comprise:** | **Core Department & Agency** | **Departmental Group** | **Core Department & Agency** | **Departmental Group** |
| Buildings: | | | | |
| Payment due within 1 year | 27,016 | 32,495 | 27,269 | 32,660 |
| Payment due after 1 year but not more than 5 years | 103,840 | 119,654 | 106,799 | 115,733 |
| Payment due thereafter | 167,977 | 184,601 | 206,120 | 207,060 |
| **Total value of obligations** | **298,833** | **336,750** | **340,188** | **355,453** |
| Other: | | | | |
| Payment due within 1 year | 3 | 844 | 23 | 1,063 |
| Payment due after 1 year but not more than 5 years | - | 610 | 8 | 1,044 |
| **Total value of obligations** | **3** | **1,454** | **31** | **2,107** |

£'000

| | 2015-16 | | 2014-15 | |
|---|---|---|---|---|
| **Receipts under operating sub-leases comprise:** | **Core Department & Agency** | **Departmental Group** | **Core Department & Agency** | **Departmental Group** |
| Buildings: | | | | |
| Receipts due within 1 year | 21,995 | 24,949 | 17,816 | 21,086 |
| Receipts due after 1 year but not more than 5 years | 76,996 | 84,177 | 66,763 | 74,778 |
| Receipts due thereafter | 33,721 | 157,604 | 46,485 | 162,902 |
| **Total value of receivables** | **132,712** | **266,730** | **131,064** | **258,766** |

## Note 17. Other financial commitments

The Department, its Agency and ALBs have entered into a number of non-cancellable contracts (which are not leases or PFI contracts). The payments to which the Department, its Agency and ALBs are committed, analysed by the period during which the commitment expires are as follows:

£'000

| | 2015-16 | | 2014-15 | |
|---|---|---|---|---|
| **Obligations under financial commitments:** | **Core Department & Agency** | **Departmental Group** | **Core Department & Agency** | **Departmental Group** |
| Payment due within 1 year | 55,169 | 55,313 | 43,087 | 43,088 |
| Payment due after 1 year but not more than 5 years | 104,832 | 104,882 | 116,445 | 116,447 |
| Payment due thereafter | 26,892 | 26,892 | 31,589 | 31,592 |
| **Total Obligations** | **186,893** | **187,087** | **191,121** | **191,127** |

## Note 18. Contingent liabilities disclosed under IAS 37

In accordance with Government policy, properties included in non-current assets in the Statement of Financial Position are not insured. Other contingent liabilities are set out below.

£'000

| | | 2015-16 | 2014-15 |
|---|---|---|---|
| a | The Department has 612 cases managed by the Government Legal Department (GLD) | 384 | 371 |
| b | Claim for repair or repurchase of defective RTB homes sold by local authorities between 1980 and 1985. | 250 to 750 | 250 to 750 |
| c | Statutory Contingent Liability taken on under the provisions of the Banking Act 2009 in respect of Homeowners Mortgage Support Scheme. | 993 | 993 |
| d | Potential liabilities to the EC arising from current European legislation | Unquantifiable | Unquantifiable |
| e | Potential losses arising from inability to recover ineligible expenditure arising as a result of the closure of ERDF 2007-2013 programme. | Unquantifiable | Unquantifiable |
| f | RPTS (residential property tribunal service) pension obligations – Following the Supreme Court judgement in respect of Part-Time Workers Regulations 2000, The Department has received a number of similar claims from fee-paid members of the RPTS. | Unquantifiable | Unquantifiable |
| g | Commitment to fund potential shortfalls of land sale receipts of a Housing Association | Up to 4,000 | - |
| h | Potential liability - details withheld for commercial reasons | Up to 492 | - |
| i | Potential dilapidation payments | 750 | - |
| j | HCA: The freeholds of several hundred properties on two estates in Washington were transferred to Sunderland City Council on 1 April 1997. The transfer was subject to a HCA indemnity valid for a period of 30 years against costs which may be incurred in remedying shale related defects. This indemnity was issued with the approval of the Department. The extent of the potential liability is unquantifiable at this time. | Unquantifiable | Unquantifiable |
| k | HCA: The HCA is potentially liable for miscellaneous claims by developers, contractors and individuals in respect of costs and claims not allowed for in development agreements, construction contracts, grants and claims such as compulsory purchase orders. Payment, if any, against these claims may depend on lengthy and complex litigation and potential final settlements cannot be determined with any certainty at this time. As claims reach a more advanced stage they are considered in detail and specific provisions are made in respect of those liabilities to the extent payment is considered probable. | Unquantifiable | Unquantifiable |
| l | PINS: Litigation costs may be incurred following unsuccessful attempts to resist a High Court challenge to an Inspector's decision. The timing and value of such awards are difficult to predict | 407 | 210 |
| m | PINS: Ex-gratia payments which may possibly be made to appellants or other appeal parties who have incurred abortive appeal costs following an error made by the Inspectorate's member of staff. | 6 | 1044 |

## Note 19. Contingent assets disclosed under IAS 37

£'000

| | | 2015-16 | 2014-15 |
|---|---|---|---|
| a | HCA: The HCA has in certain instances disposed of land or made grant payments with certain conditions attached which if no longer fulfilled will result in a payment to the Agency. Examples include where there is a subsequent change in use of land sold which materially increases the return to the purchaser, or if the conditions of a grant payment are no longer met. The normal term during which this arrangement remains in force is 21 years. For affordable housing and other community related schemes the term is more usually 35 years. By its nature this income is variable and the timing of receipt is uncertain, therefore it is not possible to quantify the likely income which may ultimately be received by the Agency. | Unquantifiable | Unquantifiable |

## Note 20. Related party transactions

The Department is the parent of a number of sponsored bodies listed in Note 22. These bodies are regarded as related parties with which the department has had various material transactions during the year.

In addition, the Department has made a number of material transactions with other government departments, central government bodies and local government organisations.

Non-Executive and Executive Board members must declare to the Permanent Secretary any personal or business interest which may, or maybe perceived to, influence their judgement as a board member. Departmental Ministers make specific disclosure of financial interests as required by the Ministerial Code of Conduct.

Peter Schofield is a member of the management board for Local Partnerships LLP (HM Treasury representative). Local Partnership is a company that is uniquely and jointly owned by HM Treasury and the Local Government Association, to provide commercial expertise on matters of infrastructure, legal and contractual complexity and act for the benefit of the public sector. The Board is responsible for the strategic direction of the company. This is an unpaid position. The Department paid a total of £111,189 to Local Partnerships LLP during 2015-16 for consultancy fees and agency staff (£41,349 relating to financial year 2015-16 and £69,840 relating to 2014-15).

Baroness Williams of Trafford's husband, Alex Williams, is a Director at Ernst & Young. During the year, the Department paid Ernst & Young £104,646 of professional fees.

The post holders of Chief Risk Officer during 2015-16 were on secondment to the Department from Barclays. Barclays is one of the lenders in the 'Help to Buy' Scheme.

During the year no Board member, key manager or other related parties, other than those mentioned above, have undertaken any material transactions with the Department.

## Note 21. Events after the reporting period

The Department's financial statements are laid before the Houses of Commons by HM Treasury. In accordance with the requirements of IAS 10 'Events After the Reporting Period', post Statement of Financial Position events are considered up to the date on which the Accounts are authorised for issue. This is interpreted as the same date as the date of the Certificate and Report of the Comptroller and Auditor General.

Following the announcement on 5 January 2016 that ministerial responsibility for fire and rescue policy would transfer with immediate effect to Mike Penning, Minister for Policing, Fire, Criminal Justice and Victims, a Machinery of Government (MoG) change was effected on 1st April 2016 to transfer the fire and rescue policy function of the Department to the Home Office. MoG transfers within central government are accounted for in the year of transfer via merger accounting as set out by the FReM. As a result, in 2016-17, all current and prior year movements and balances will be presented as if the function had always been provided by the Home Office.

On 23rd June 2016, the referendum held to decide whether the UK should remain in or leave the EU resulted in a ‘leave’ result. This is a non-adjusting event. The Department partakes in the ERDF programme and balances related to that programme are disclosed separately in the notes to this account. Currently, negotiations and decisions to effect the withdrawal of the UK from the EU are yet to take place and as such, there is currently no known effect on these balances in the 2015-16 accounts. DCLG also have considerable Available for Sale Assets (see note 8) which largely flow from HCA’s activities. The result of the referendum may have an impact on the values of these assets, however, it is too soon to quantify that impact. The result will heighten risk, at least in the short term, to: the UK economy; quantities of taxation; public sector borrowing and expenditure; exchange rates; political priorities and house prices. A reasonable estimate of the financial effect of these issues cannot be made.

## Note 22. Entities within the Departmental Boundary

All bodies apart from the Queen Elizabeth II Conference Centre and the Architects Registration Board are consolidated into the Departmental accounts.

The Audit Commission was abolished on 1st April 2015. The Comisssion’s residual assets and liabilities, including the pension liability arising from the Audit Commission Pension Scheme transferred to the Department at that date.

**Executive Agencies**

Planning Inspectorate

**Advisory Bodies**

Building Regulations Advisory Committee

**Tribunals**

Valuation Tribunal for England

**Executive Non departmental Public Bodies (NDPBs)**

| | | |
|---|---|---|
| Homes and Communities Agency | The Leasehold Advisory Service | Ebbsfleet Development Corporation |
| The Housing Ombudsman | Valuation Tribunal Service | |

**Other Bodies Not Classed as NDPBs**

Commission for Local Administration in England

**Trading Funds**

Queen Elizabeth II Conference Centre

**Public Corporations**

Architects Registration Board

# BUSINESS RATES RETENTION AND NON-DOMESTIC RATES TRUST STATEMENT

## Foreword

*Scope*

This Trust Statement is produced by the Department for Communities and Local Government as required by HM Treasury and is in line with the Accounts Direction. This Statement is prepared on an accruals basis. The Trust Statement presents the results for the financial year 2015-16 in respect of the collection of Business Rate income under the Business Rate Retention system from local authorities, central list businesses and the Ministry of Defence, and the payment to the Consolidated Fund of this income.

*Background*

The Department acts as an agent for the Consolidated Fund and receives cash in respect of Business Rates under the Business Rates Retention system which is paid over to the Consolidated Fund. This income does not flow through the Department's Statement of Comprehensive Net Expenditure but instead is held on the Statement of Financial Position as a liability until paid over to the Consolidated Fund. At the year end, where possible, all income recognised, for which the cash has been received, has been paid over to the Consolidated Fund. Any income recognised but for which the cash has not been received is shown in the Trust Statement as current receivables. In the event cash has been received but not paid over, this is reflected as a cash balance on the Statement of Financial Position.

*Introduction of Business Rates Retention from 2013-14*

The new scheme of Business Rates Retention came into force on 1 April 2013, replacing the old collection and redistribution National Non-Domestic Rating system. Under the system, local authorities retain 50% of the rates collectable as local share. However, following the Office of National Statistics classification of the entire system as a central government tax, the local share is included in this Trust Statement as income collectable in respect of the tax and is then deducted as an allowable deduction thus reflecting the amount due to the Consolidated Fund.

The results presented in this Trust Statement are separate from the results presented in the Department's Group Accounts although they flow through the Department's accounting system.

Any cash receipts or payments are presented through the Statement of Cash Flows in the Trust Statement only and are excluded from the Department's Consolidated Statement of Cash Flows.

*Auditors*

The Trust Statement is audited by the Comptroller and Auditor General under Section 7 of the Government Resources and Accounts Act 2000. The audit opinion is on pages 106 to 107. The auditor's notional fee of £19,000 (2014-15: £19,000) for this is included in the Department's Group Accounts. There were no fees in respect of non-audit work.

*Basis for preparation*

The HM Treasury Accounts Direction, issued under section 7(2) of the Government Resources and Accounts Act 2000, requires the Department for Communities and Local Government to prepare the Trust Statement to give a true and fair view of the position relating to the amounts receivable and payable in respect of Business Rates. Regard is given to all relevant accounting and disclosure requirements given in Managing Public Money and other guidance issued by HM Treasury.

## Statement of the Accounting Officer's Responsibilities in respect of the Trust Statement

Under section 7 of the Government Resources and Accounts Act 2000, HM Treasury has directed the Department for Communities and Local Government to prepare for each financial year a Trust Statement in the form and on the basis set out in the Accounts Direction.

On 1 March 2015, HM Treasury appointed Melanie Dawes, the Permanent Head of the Department, as the Accounting Officer for the Business Rates Retention and Non-Domestic Rates Trust Statement.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in Managing Public Money published by the Treasury.

The Trust Statement is prepared on an accruals basis and must give a true and fair view of the state of affairs of Business Rates collected by the Department, together with the net amounts surrendered to the Consolidated Fund.

In preparing the Trust Statement, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual (FReM) prepared by the Treasury and, in particular, to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the FReM have been followed, and disclose and explain any material departures in the account; and
- prepare the Trust Statement on a going concern basis.

So far as the Accounting Officer is aware, there is no relevant audit information of which the external auditors are unaware. The Accounting Officer has taken all steps that she ought to have taken to make herself aware of any relevant audit information and to establish that the Department's auditors are aware of that information.

## Governance Statement in respect of the Trust Statement

The Department's Governance Statement, covering both the Group Accounts and the Trust Statement, starts on page 34.

**Melanie Dawes CB** **4 July 2016**

**Accounting Officer**
**Department for Communities and Local Government**

# THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS – TRUST STATEMENT

I certify that I have audited the financial statements of the Business Rates Retention and Non-Domestic Rates Trust Statement (the Trust Statement) for the year ended 31 March 2016 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

## Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Trust Statement and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer in preparing the Trust Statement; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Department for Communities and Local Government's Annual Report and the Trust Statement's Foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Opinion on financial statements

In my opinion:

- the Business Rates Retention and Non-Domestic Rates Trust Statement gives a true and fair view of the state of affairs of the income collectable under Business Rates Retention and Non-Domestic Rates by the Department for Communities and Local Government on behalf of the Consolidated Fund as at 31 March 2016 and of the total revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

## Opinion on other matters

In my opinion:

- the information given in the Foreword to the Trust Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## Report

I have no observations to make on these financial statements.

**Sir Amyas C E Morse** **Date: 5 July 2016**
**Comptroller and Auditor General**

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

## Statement of Revenue, Other Income and Expenditure

**For the period ended 31 March 2016**

£'000

| | Note | 2015-16 | 2014-15 |
|---|---|---|---|
| **Income** | | | |
| **Licence Fees and Taxes** | | | |
| National Non Domestic Rates | | 1,323,102 | 1,272,375 |
| Business Rates Retention | | 23,499,468 | 22,257,698 |
| **Local Share** | | | |
| Deduction of Local Share | | (11,372,020) | (10,761,083) |
| **Total Revenue after deduction of Local share** | 3 | 13,450,550 | 12,768,990 |
| **Net Revenue for the Consolidated Fund** | | **13,450,550** | **12,768,990** |

There were no recognised gains or losses accounted for outside the above Statement of Revenue, Other Income and Expenditure.

The notes at pages 111 to 112 form part of this Statement.

# Statement of Financial Position

**as at 31 March 2016**

£'000

| | Note | 2015-16 | 2014-15 |
|---|---|---|---|
| **Current Assets** | | | |
| Receivables | 4 | 68,563 | 52,085 |
| Cash and Cash Equivalents | CfS, 6 | - | 19,029 |
| **Total Current assets** | | **68,563** | **71,114** |
| **Current Liabilities** | | | |
| Payables | 5 | 10,562 | 19,029 |
| **Total Current Liabilities** | | **10,562** | **19,029** |
| **Total assets less current liabilities** | | **58,001** | **52,085** |
| Represented by: | | | |
| **Balance on Consolidated Fund** | 2 | **58,001** | **52,085** |

**Melanie Dawes CB**
**Accounting Officer**
**Department for Communities and Local Government**

**4 July 2016**

The Notes on pages 111 to 112 form part of these accounts.

# Statement of Cash Flows

**for the period ended 31 March 2016**

£'000

| | Note | 2015-16 | 2014-15 |
|---|---|---|---|
| **Cash flows from operating activities** | | 13,425,605 | 12,741,947 |
| **Cash paid to the Consolidated Fund** | | (13,444,634) | (12,726,337) |
| **Increase/(decrease) in cash in this period** | | **(19,029)** | **15,610** |
| **A: Reconciliation of Net Cash Flow to Movement in Net Funds** | | | |
| Net Revenue for the Consolidated Fund | 3 | 13,450,550 | 12,768,990 |
| (Increase)/Decrease in receivables | 4 | (16,478) | (40,971) |
| Increase/(Decrease) in payables | 5 | (8,467) | 13,928 |
| **Net Cash Flow from Operating Activities** | | **13,425,605** | **12,741,947** |
| **B: Analysis of Changes in Net Funds** | | | |
| Increase/(decrease) in Cash in this Period | | (19,029) | 15,610 |
| Net funds at 1 April | | 19,029 | 3,419 |
| **Net Funds as 31 March** | | **-** | **19,029** |

The Notes on pages 111 to 112 form part of these accounts.

# Notes to the Trust Statement

## Trust Statement Note 1 Statement of Accounting Policies

*Basis of accounting*

The Trust Statement is prepared in accordance with the Accounts Direction and with the accounting policies detailed below. These have been agreed between the Department for Communities and Local Government and HM Treasury and have been developed with reference to International Financial Reporting Standards and other relevant guidance. The accounting policies have been applied consistently in dealing with items considered material in relation to these statements.

The income and associated expenditure contained in these Statements are those flows of funds which the Department handles on behalf of the Consolidated Fund where it is acting as agent rather than as principal.

This Trust Statement reports the income collectable under the Business Rates Retention system as reported on the Main Non-Domestic Rating Account and the Levy Account. The Levy Account recognises a non-cash credit required by legislation. This is not actual income due or collectable on behalf of the Consolidated Fund and it has not been recognised in this Trust Statement. Tariff receipts are also excluded from the Trust Statement as they are used to pay for Top Ups and not surrendered to the Consolidated Fund.

*Accounting convention*

The Trust Statement has been prepared in accordance with the historical cost convention.

*Revenue recognition*

Revenue detailed in this Statement is collected on behalf of the Consolidated Fund in respect of Business Rates. Revenue is measured in accordance with IAS 18 and recognised when the underlying event giving rise to the liability to the Consolidated Fund has occurred, can be measured reliably and it is probable that that the economic benefits will flow to the Exchequer.

Any adjustments to the amounts collected for the Consolidated Fund are not agreed, due or received until the year following the accounting period and are therefore not recognised until that point. Revenue is collected from local authorities, central list companies and the Ministry of Defence.

*Receivables*

Receivables, where applicable, are shown net of impairments in accordance with the requirements of IAS 39.

*Payables*

Payables, where applicable, are shown net of impairments in accordance with the requirements of IAS 39.

*Local share*

Under Business Rates Retention, local authorities retain a percentage, currently 50%, of the Business Rates collectable as their local share. For the purposes of this Trust Statement, the total Business Rates revenue is recognised and the local share is then deducted as an allowable expense to calculate the amount due to the Consolidated Fund.

The cost of collection borne by local authorities included within the Local Share is £84 million (£84 million in 2014-15).

## Trust Statement Note 2 Balance on the Consolidated Fund

£'000

| Consolidated Fund | 2015-16 | 2014-15 |
|---|---|---|
| Balance on Consolidated Fund Account as at 1 April | 52,085 | 9,432 |
| Net Revenue of the Consolidated Fund | 13,450,550 | 12,768,990 |
| Less amount paid to the Consolidated Fund | (13,444,634) | (12,726,337) |
| **Balance on Consolidated Fund Account as at 31 March** | **58,001** | **52,085** |

## Trust Statement Note 3 Revenue collected on behalf of the Consolidated Fund

£'000

| Revenue | 2015-16 | 2014-15 |
|---|---|---|
| Central list and others: NNDR revenue collectable on behalf of the Consolidated Fund | 1,323,102 | 1,272,375 |
| Local authorities: BRR revenue collected on behalf of the Consolidated Fund | 12,127,448 | 11,496,615 |
| **Total Revenue** | **13,450,550** | **12,768,990** |

## Trust Statement Note 4 Receivables

£'000

| Receivables | 2015-16 | 2014-15 |
|---|---|---|
| Accrued revenue receivable | 68,563 | 52,085 |
| **Total receivables** | **68,563** | **52,085** |

## Trust Statement Note 5 Payables

£'000

| Payables | 2015-16 | 2014-15 |
|---|---|---|
| Accrued revenue payable | 10,562 | 19,029 |
| **Total payables** | **10,562** | **19,029** |

## Trust Statement Note 6 Cash at Bank

The cash at bank and net funds disclosed in the Statement of Cash Flows are held with the Government Banking Service.

## Trust Statement Note 7 Events after the reporting period

The Department's financial statements are laid before the Houses of Commons by HM Treasury. In accordance with the requirements of IAS 10 'Events After the Reporting Period', post Statement of Financial Position events are considered up to the date on which the Accounts are authorised for issue. This is interpreted as the same date as the date of the Certificate and Report of the Comptroller and Auditor General. There are no post Statement of Financial Position events between the balance sheet date and this date.

# ACCOUNTS DIRECTION GIVEN BY HM TREASURY IN ACCORDANCE WITH SECTION 7(2) OF THE GOVERNMENT RESOURCES AND ACCOUNTS ACT 2000.

This direction applies to the Department for Communities and Local Government for the reporting of the Business Rates Retention Business Rates Retention and Non-Domestic Rates.

The Department shall prepare a Trust Statement ("the Statement") for the financial year ended 31 March 2015 and subsequent financial years for the revenue and other income, as directed by HM Treasury, collected by the Department as an agent for others, in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual by HM Treasury ("FReM") which is in force for that financial year.

The Statement shall be prepared, as prescribed in appendix 1, so as to give a true and fair view of (a) the state of affairs relating to the collection and allocation of Business Rates; (b) the revenue and expenditure; and (c) the cash flows for the year then ended.

The Department shall report the total amount of Business Rates revenue, comprising the central and local share, including those elements that are recorded separately. These include levy income receivable from local authorities and other income following reconciliation adjustments. The Department shall show the local share as an allowable deduction from the total amount of Business Rates revenue recognised and correspondingly reduce revenues payable to the consolidated fund by the amounts retained by local government in the form of the local share.

The Statement shall also be prepared so as to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

When preparing the Statement, the Department shall comply with the guidance given in the FReM. The Department shall also agree with HM Treasury the format of the Principal Accounting Officer's Foreword to the Statement, and the supporting notes, and the accounting policies to be adopted, particularly in relation to revenue recognition. Regard shall also be given to all relevant accounting and disclosure requirements in Managing Public Money and other guidance issued by HM Treasury, and to the principles underlying International Financial Reporting Standards.

Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.

The Statement shall be transmitted to the Comptroller and Auditor General for the purpose of his examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to enable compliance with the administrative deadline for laying the audited accounts before Parliament before the Summer Recess.

The Trust Statement, together with this direction (but with the exception of the related appendices) and the Report produced by the Comptroller and Auditor General under section 7(2) of the Government Resources and Accounts Act 2000 shall be laid before Parliament at the same time as the department's Resource Accounts for the year unless HM Treasury have agreed that the Trust Statement may be laid at a later date.

This Accounts Direction supersedes any previously issued Accounts Directions in respect of Business Rates Retention.

**Ross Campbell**
**Deputy Director, Government Financial Reporting**
**Her Majesty's Treasury**
**9 February 2015**

# Annex A: Section 70 Grant Payments to Charities

| Institution | Payments £'000 | Purpose |
|---|---|---|
| ACRE (Action with Communities in Rural England)<br>*Neigbourhood Planning Mobilisation* | **100** | To deliver a series of 10 regional roadshows on neighbourhood planning to parish councils and local authorities, plus produce support resources. |
| Acta<br>*Arts and Communities* | **40** | Support for Arts in the Communities project in Bristol, match funded with Arts Council England. |
| Angelou Centre<br>*Women's Empowerment Fund* | **18** | To deliver activities that empower women so they can fully participate in and shape the communities in which they live, challenge practices that are harmful to them and take a full part in society. |
| Anne Frank Trust<br>*Integration & Extremism - Tolerance* | **64** | To use Anne Frank's life & diary to empower young people with the knowledge, skills & confidence to challenge all forms of prejudice & discrimination. |
| Apasenth<br>*The e3 pilot Project - English through Social, Economic and Community Action* | **78** | To deliver Community-Based English Language training to adults with the lowest levels of English to increase integration. |
| Board of Deputies of British Jews<br>*Holocaust Rememberance* | **25** | Contribution to Yom HaShoah, the Jewish Communal Holocaust Commemoration and Remembrance event. |
| Board of Deputies of British Jews<br>*Women Working Together* | **25** | To bring together the Jewish and Muslim communities, to develop leadership skills in women in order to bring benefits to the wider community. |
| Centre for Ageing Better (CfAB)<br>*What Works Centre for Ageing Better* | **200** | Funding to support the building of the centre for Ageing Better capabilities. |
| Centre for Engineering and Manufacturing Excellence<br>*Centre for Engineering and Manufacturing Excellence* | **1,016** | The High Speed Sustainable Manufacturing Institute will bring together academic institutions, end users and their supply chain partners to create a new multi-industry partnership for research and development of manufacturing systems. |
| Commonwealth War Graves Commission<br>*Living Memory Project* | **40** | Living Memory aims to increase community engagement & public awareness of the work of the Commonwealth War Graves Commision as it approaches its 100th anniversary in 2017. |
| Cumbria Community Foundation Charity<br>*Community Business Recovery Scheme - Storm Desmond* | **1,000** | Supporting recovery from the flooding caused by Storm Desmond in Cumbria. |
| Design Council<br>*Building Regulations Research Programme* | **51** | To develop cross-disciplinary training on inclusive planning, design, construction and management which will act as an introduction to inclusive environments relevant to all built environment professionals and underpin the specialist training delivered by the professional institutes and others. |
| Design Council Cabe<br>*Tenant Empowerment Programme* | **99** | Community Led Design and Development Programme<br>1) communicate the opportunities for using land assets within a landlord/TMO area<br>2) help equip these organisations with the necessary skills and confidence to take forward new housing development and illustrate the business case for tenant involvement<br>3) help organisations bring forward well designed, high quality new homes. |
| Edgware & District Reform Synagogue<br>*Integration & Faith Holocaust Memorial Garden* | **11** | Contribution to a Holocaust Memorial Garden where people from different faiths who to work together on joint initiatives to bring communities together. |
| East London Advanced Technology Training (Elatt) learning centre<br>*Women's Empowerment Fund* | **19** | To deliver activities that empower women so they can fully participate in and shape the communities in which they live, challenge practices that are harmful to them and take a full part in society. |
| Faith Action<br>*Creative English* | **373** | To deliver Community-Based English Language training to adults with the lowest levels of English to increase integration. |

| Institution | Payments £'000 | Purpose |
|---|---|---|
| Faith Action<br>*Together in Service* | **48** | A project celebrating social action projects based around each of the faith communities' religious festivals or volunteering days. It is designed to inspire new work especially around multi-faith volunteering projects in England between religions. |
| Faith Matters<br>*Integration & Extremism - Tolerance* | **182** | To encourage people to report instances of anti-Muslim hatred and carry out community engagement to educate people about anti-Muslim hatred. |
| Fayre Share Foundation<br>*Strengthening Faith Institutions* | **125** | To strengthen and support places of worship of all faiths in order to improve governance, increase their capacity to engage with women and young people, challenge intolerance and develop resilience to extremism. |
| Groundwork UK<br>*Community Rights programme* | **7,877** | Drawdown of funding by grant administrator to disburse to recipients of support under the Community Rights and Neighbourhood Planning support programmes. |
| GROW<br>*Women's Empowerment Fund* | **20** | To deliver activities that empower women so they can fully participate in and shape the communities in which they live, challenge practices that are harmful to them and take a full part in society. |
| Hamara HLC<br>*Women's Empowerment Fund* | **15** | To deliver activities that empower women so they can fully participate in and shape the communities in which they live, challenge practices that are harmful to them and take a full part in society. |
| Healthy Living solution<br>*Women's Empowerment Fund* | **15** | To deliver activities that empower women so they can fully participate in and shape the communities in which they live, challenge practices that are harmful to them and take a full part in society. |
| Her Centre<br>*Women's Empowerment Fund* | **20** | To deliver activities that empower women so they can fully participate in and shape the communities in which they live, challenge practices that are harmful to them and take a full part in society. |
| Holocaust Memorial Day Trust<br>*Integration & Extremism - Tolerance* | **980** | Holocaust Memorial Day Trust delivers Holocaust Memorial Day on behalf of Government & supports local Holocaust Memorial Day activities. |
| Institute of Structural Engineers/Structural Safety<br>*Building Regulation Research Programme* | **35** | To enable the set up of a system to capture data on the impact of extreme weather on buildings. |
| Inter Faith Network for the UK<br>*Strategic Grant* | **220** | To promote understanding and cooperation between organisations and people of different faiths across the country. |
| Karma Nirvana<br>*Women's Empowerment Fund* | **20** | To deliver activities that empower women so they can fully participate in and shape the communities in which they live, challenge practices that are harmful to them and take a full part in society. |
| LifeLine Community Projects<br>*Creative English* | **48** | To deliver Community-Based English Language training to adults with the lowest levels of English to increase integration. |
| Mencap<br>*Changes Places Application* | **33** | To develop a replacement for the current Changing Places Toilet Map in order to ensure adequate provision of toilet facilities to meet the needs of most disabled people. |
| Mitzvah Day UK<br>*Mitzvah Day Interfaith Project* | **20** | To create links and build relationships between different faiths that will lead to more cohesive, stronger local communities through social action. |
| National Association of Local Councils (NALC)<br>*Transparency for Small Authorities* | **1,499** | To ensure compliance with the smaller authorities transparency code 2015. |
| National Association of Local Councils (NALC)<br>*Sector Led Body Grant* | **220** | Set up costs for a sector led body in line with the local authority audit Act 2014. |
| National Association of Local Councils (NALC)<br>*Support for Parish Councils* | **100** | To help areas set up new town and parish councils. |
| National Association of Local Councils (NALC)<br>*Sustainable Communities Selector* | **5** | Funding to perform selector role required for the operation of the Sustainable Communities Act 2007. |

| Institution | Payments £'000 | Purpose |
|---|---|---|
| National Communities Resorce Centre<br>*Tenant Empowerment Programme* | **90** | To develop and provide low cost residential training and capacity building courses to social housing tenants in England. The courses run over a 2 or 3 day period<br>1) Develop and support individual tenants<br>2) Strengthen tenant groups<br>3) Encourage tenant groups to engage in their community<br>4) Provide an understanding of policy and management issues. |
| National Federation of Tenant Management Organisatons<br>*Tenant Empowerment Programme* | **22** | Support for the Right to Manage Programme and to grow Tenant Management Organisations. Broaden the geographical reach of the Tenant Empowerment Programme in Local Communities. |
| National Holocaust Centre - Newark<br>*National Holocaust centre* | **312** | Supporting the digitisation of 'The Journey' an immersive first-person experience following the story of a child who came to England on the Kindertransport. |
| NESTA<br>*Centre for Engineering and Manufacturing Excellence* | **50** | Centre for Engineering and Manufacturing Excellence. |
| Power to Change Trust<br>*Pubs Loan Fund* | **1,850** | To support community groups through the process of buying and re-opening their local pubs. |
| Promoting African Refugee Community Association<br>*Women's Empowerment Fund* | **20** | To deliver activities that empower women so they can fully participate in and shape the communities in which they live, challenge practices that are harmful to them and take a full part in society. |
| Pub is the Hub<br>*Community Services Grant & Expansion of Advisory Hubs* | **100** | The payment to 'Pub is the Hub' were to facilitate project for pubs to diversify their service provision. |
| Reading Community Learning Centre<br>*Women's Empowerment Fund* | **15** | To deliver activities that empower women so they can fully participate in and shape the communities in which they live, challenge practices that are harmful to them and take a full part in society. |
| Renaisi<br>*Capacity building and training for communities in deprived neighbourhoods* | **12** | To fund 6 community organisations to run small scale local projects to engage comunities with neighbourhood planning. Renaisi administered the fund, after providing training and capacity building to the 6 orgnisations. |
| Royal Town Planning Institute<br>*Royal Town Planning Institute Student Busaries* | **37** | To support the RTPI's initative to increase the number of students choosing to study Town Planning at Masters Degree level. |
| Schools Linking - Olive Branch Trust<br>*Integration and Faith - Schools Linking* | **36** | To equip teachers to work with pupils to create a safe space where conversations around 'difficult topics' can take place. |
| Shantona Women's Centre<br>*Women's Empowerment Fund* | **20** | To deliver activities that empower women so they can fully participate in and shape the communities in which they live, challenge practices that are harmful to them and take a full part in society. |
| Streets Alive Ltd<br>*Street Party Support* | **3** | Provision of advice and guidance to support people organising local street parties for the Queen's 90th birthday. |
| Superact<br>*Our Big Gig Project* | **40** | To coordinate delivery of culturally diverse community-led music events to bring people from different backgrounds together and promote participation. |
| Superact<br>*First World War Centenary - The Last Post* | **6** | The Last Post brings communities together to play the Last Post & remember the First World War through local stories about individual, soldiers regiments & families. |
| Tender Education & Arts<br>*Women's Empowerment Fund* | **14** | To deliver activities that empower women so they can fully participate in and shape the communities in which they live, challenge practices that are harmful to them and take a full part in society. |
| The Church Urban Fund<br>*Near Neighbours Initiative* | **1,500** | To bring people together in communities that are religiously and ethnically diverse, so that they can get to know each other better, build relationships of trust and collaborate together on initiatives that improve the local community they live in. |

| Institution | Payments £'000 | Purpose |
|---|---|---|
| The JAN Trust<br>*Integration of Muslim Women* | **18** | To encourage the integration of hard to reach Muslim women by running a City and Guilds accredited fashion and design programme. |
| The Precious Trust<br>*Women's Empowerment Fund* | **15** | To deliver activities that empower women so they can fully participate in and shape the communities in which they live, challenge practices that are harmful to them and take a full part in society. |
| The Women's Organisation<br>*Women's Empowerment Fund* | **20** | To deliver activities that empower women so they can fully participate in and shape the communities in which they live, challenge practices that are harmful to them and take a full part in society. |
| TimeBank (One20)<br>*Talking Together* | **395** | Support for Community-Based English Language project. |
| Tinder Foundation<br>*English My Way* | **967** | To deliver Community-Based English Language training to adults with the lowest levels of English to increase integration. |
| TPAS Ltd<br>*Tenant Empowerment Programme* | **160** | For the delivery of Tenant Central training and capacity building programme consisting of:<br>1) In house training courses<br>2) Nationwide events and networking<br>3) Accredited training<br>4) E learning<br>5) Case studies. |
| Ummah Help<br>*Remember Srebenica Genocide Project* | **333** | To commemorate what happened in the town of Srebrenica during the Yugoslavian civil war whilst raising awareness aimed at countering discrimination and building stronger community relations here in the UK. |
| Victoria Cross Trust<br>*Integration & Faith - Common Ground* | **140** | Supported the Victoria Cross Trust to restore the graves of Victoria Cross recipients from the First World War. |
| Weiner Library<br>*Integration & Extremism - Common Ground* | **300** | To support the Weiner Library to translate over 1300 pieces of Holocaust survivor testimony first recorded in the 1950's and 1960's. |
| Womanzone<br>*Women's Empowerment Fund* | **20** | To deliver activities that empower women so they can fully participate in and shape the communities in which they live, challenge practices that are harmful to them and take a full part in society. |
| Elderly Accommodation Council (EAC)<br>*First Stop Programme* | **930** | FirstStop is a front-line service provider that provides phone and web support and information to help older people continue to live independently; reducing the costs of care for the elderly. |
| **Total** | **22,067** | |

**Additional Section 70 Payments**

Paid under Section 31 Local Government Act 2003

| Institution | Payments £'000 | Purpose of Grant |
|---|---|---|
| Accrington Lions Club with Whalley and District Lions Club | **31** | Charity Flood Appeal - Match Fund Payment |
| Canal and River Trust | **65** | Charity Flood Appeal - Match Fund Payment |
| Carlisle Youth Zone | **72** | Charity Flood Appeal - Match Fund Payment |
| Community Foundation for Calderdale | **1,509** | Charity Flood Appeal - Match Fund Payment |
| Community Foundation Lancashire and Merseyside | **340** | Charity Flood Appeal - Match Fund Payment |
| Croston Old School | **57** | Charity Flood Appeal - Match Fund Payment |
| Croston St Michaels Scout Group | **3** | Charity Flood Appeal - Match Fund Payment |
| Cumbria Community Foundation | **3,800** | Charity Flood Appeal - Match Fund Payment |
| Forever Manchester | **93** | Charity Flood Appeal - Match Fund Payment |
| Foundations Independent Living Trust Limited | **14** | Charity Flood Appeal - Match Fund Payment |
| Glenridding Public Hall | **23** | Charity Flood Appeal - Match Fund Payment |
| Hayden Bridge and Hayden Parish Development Trust | **12** | Charity Flood Appeal - Match Fund Payment |
| I2i Foundation | **25** | Charity Flood Appeal - Match Fund Payment |
| Keswick Rotary Club | **118** | Charity Flood Appeal - Match Fund Payment |

| Institution | Payments £'000 | Purpose of Grant |
|---|---|---|
| Leeds Community Foundation | **237** | Charity Flood Appeal - Match Fund Payment |
| Lions Club of Penrith | **3** | Charity Flood Appeal - Match Fund Payment |
| Lions Clubs International District 105 BN Cumbria and Lancashire | **40** | Charity Flood Appeal - Match Fund Payment |
| Littleborough and District Lion Club | **8** | Charity Flood Appeal - Match Fund Payment |
| Marine Society & Sea Cadets (MSSC) | **23** | Charity Flood Appeal - Match Fund Payment |
| New Life Trust, partnered with Howard Wilkinson | **1** | Charity Flood Appeal - Match Fund Payment |
| Rotary Club of Ramsbottom | **9** | Charity Flood Appeal - Match Fund Payment |
| Salford Community and Voluntary Services (Salford CVS) | **3** | Charity Flood Appeal - Match Fund Payment |
| Saxton Cricket Club | **5** | Charity Flood Appeal - Match Fund Payment |
| The Hebden Bridge Nursery Action Group Limited | **3** | Charity Flood Appeal - Match Fund Payment |
| The Kier Foundation | **10** | Charity Flood Appeal - Match Fund Payment |
| The National Flood Forum | **2** | Charity Flood Appeal - Match Fund Payment |
| The Northumberland County Youth Cricket Charitable Trust | **2** | Charity Flood Appeal - Match Fund Payment |
| The Outward Bound Trust | **164** | Charity Flood Appeal - Match Fund Payment |
| The Prince's Countryside Fund | **79** | Charity Flood Appeal - Match Fund Payment |
| Two Ridings Community Foundation | **790** | Charity Flood Appeal - Match Fund Payment |
| Ulleskelf Village Hall & Ulleskelf Parish Council | **8** | Charity Flood Appeal - Match Fund Payment |
| York Archaeological Trust | **15** | Charity Flood Appeal - Match Fund Payment |
| **Total** | **7,565** | |
| | | |
| **Grand Total** | **29,632** | |

# Annex B: Further Financial Information

The information in the following paragraphs gives additional information about entries included in the financial statements and notes.

## Business Rates Retention

The Business Rates Retention system began on 1 April 2013 and is the system by which business rates are collected. Half of business rate income collected by local authorities is retained (the Local Share) and the other half is remitted, via the Department, to the Consolidated Fund.

Amounts collectable or payable in respect of Business Rates are accounted for in a number of accounts:

- This Annual Report and Accounts includes grant expenditure payable to local authorities including notional grant expenditure in respect of the retained Local Share;
- The Trust Statement (included within this Annual Report and Accounts) includes amounts collectable for the Consolidated Fund including recognition of notional income in respect of the Local Share which is then deducted as an allowable expense to arrive at the actual amount of income due to the Consolidated Fund; and
- Two separate White Paper Memorandum Accounts are produced in respect of the Main Rating Account and Levy Account. The Main Rating Account includes all amounts receivable and payable by the Secretary of State plus any debit allowable under legislation. Levy income and Safety Net Payments are included within the Levy Account along with any credit allowable under the legislation.

## European Regional Development Fund (ERDF)

The ERDF was set up in 1975 to stimulate economic development in the least prosperous regions of the European Union (EU). The Department acts as Managing Authority (the organisation responsible for the efficient management and implementation of the programme) for the 2000-2006, 2007-2013 and 2014-2020 Programmes.

### *European Regional Development Fund 2000-2006*

The 2000-2006 programmes were completed on 31 March 2010 when final declarations and reports were forwarded to the European Commission (EC) for their consideration. During the course of the year, the seven remaining 2000-06 ERDF Programmes have been settled and signed off by the EC. Where project expenditure is not in accordance with ERDF regulations it becomes ineligible for ERDF grant funding. The Department seeks to recover such ineligible expenditure from grant recipients in the first instance. Where recovery is not possible or feasible, the liability ultimately falls to the Department to manage and, where appropriate, write off. As part of the closure of the 2000-06 programme, the Department has identified the outstanding debts in the programme. There are now five programmes with outstanding debts where payment recovery is being actively sought.

Closing seven programmes during 2015-16 has resulted in accounting gains of £21.7m owing to de-recognition of ineligible ERDF expenditure following receipt of the final closure documents from the EC.

### *European Regional Development Fund 2007-13 programme*

The Department is responsible for managing the ERDF 2007-13 programme. In London, the ERDF continues to be delivered by an intermediary body, the GLA.

ERDF income is recognised once the relevant claim has been certified by the Department's ERDF Certifying Authority team. Payments to projects that have been made by the Department can only be recognised as an expense once certified. These payments have been treated as current asset inventories on the Statement of Financial Position (31$^{st}$ Mar 16: £291,404k, 31$^{st}$ Mar 15: £86,884) and are only transferred to expenditure on certification. In the event that the payments fail certification the amounts are reclaimed from projects.

All programmes have an associated intervention rate assigned at priority level which is approved in each programme's financial tables, which is the percentage of eligible project expenditure which attracts ERDF funding. Projects can be offered an ERDF grant at varying intervention rates but the overall priority level intervention must be achieve by the end of the programme period, and any surplus income may need to be returned to the EC. Claims are made to the EC based on the priority level intervention rate, but since individual projects within a programme may have different intervention rates, differences arise between the amounts of certified expenditure recognised for income purposes and that paid out to projects. The differences between these amounts are posted to the Statement of Financial Position either as current asset inventories (31st Mar 16: £0, 31st Mar 15: £0) or deferred income within current payables (31st Mar 16: £203,246k, 31st Mar 15: £186,428k).

At the start of the programme 7.5% of the value of the programme was paid by the EC to the Department as an advance payment. This payment is to provide working capital and any interest gained on the cash balances is to be used as match funding within the programme and where not so utilised, returned to the EC. The Department retains the advances together with unutilised interest in a specific interest paying bank account (31st Mar 16: £192,647k, 31st Mar 15: £193,409k) set up for the purpose. This latter amount is treated as deferred income until used (31st Mar 16: £5,460k, 31st Mar 15: £6,222k). In 2015-16, the Department has begun to utilise this advance funding as several programmes have now claimed 87.5% of their ERDF allocation. 5% of each programme value is held on retention by the EC and will be returned to the Department, if eligible, during closure.

During the course of the year, the Audit Authority (designated body that audits the ERDF programmes) tested the validity of 205 claims, equating to €324 million out of total declared expenditure of €1,229 million. Testing of the audit sample revealed instances of ineligible expenditure on a number of ERDF projects in excess of the 2% materiality threshold set by the Commission. The Audit Authority calculated the total projected error rate for the EC's 2014 accounting period as being 2.673%, exceeding the materiality threshold. This is similar to the previous year.

To ensure an error rate of less than 2% is reported in the Annual Control Report (ACR), the Department applied a self-correction to the ERDF Programme by removing €10.1 million from the 2015 Declaration of Expenditure to the EC. The Department has effectively waived its claim for reimbursement of the ERDF part of the €10.1 million, and has therefore incurred a loss of £4.278m.

2016-17 may be the final year where the Department is able to make a self correction. The Department must also ensure that the residual (cumulative) error rate in the programme remains below 2% by closure. Any errors identified in audit testing during 2016-17 will increase the residual error rate. The Department therefore took the decision to correct the residual error rates to a maximum individual programme value of 0.5%. This incurred a loss of £2.278 million, which is included in the £4.278 million above.

The 2007-2013 Programme drew to a close on 31 December 2015. The Department is expected to submit formal closure documents, as required by ERDF regulations, to the EC by 31 March 2017.

During the year there was a payment interruption in the East Midlands owing to an outstanding request for information on irregularities from the EC. This was lifted in-year and payments have been resumed.

### *European Regional Development Fund 2014-2020*

The Department successfully agreed England's Partnership Agreement for the 2014-2020 ERDF Programme. The contents of the one, national Operational Programme for England was agreed with the EC. The total ERDF funding for the 2014-20 programme was agreed as €3.6 billion. As a result of the 'leave' result in the referendum on the UK's membership of the EU, there is now uncertainty as to the future of this programme.

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