Making public money work harder

Learning from recent NAO work
By the Comptroller and Auditor General

INSIGHT

NAO
National Audit Office

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FOREWORD

The National Audit Office (NAO) is independent of government and supports Parliament in scrutinising public spending. We do this by auditing government accounts, reporting on whether value for money is being achieved, and helping government apply the lessons from our work to achieve more for citizens from every pound spent. Our focus is on how well government policy is implemented and we do not comment on the merits of policy decisions. We work closely with the Committee of Public Accounts of the House of Commons (and other committees), supporting their inquiries with evidence-based reports.

At the start of a new Parliament, I want to draw members' and ministers' attention to the substantial body of learning contained in the NAO's work. This includes evidence of what works, as well as the root causes of failure. We publish all our work on our website at www.nao.org.uk, along with details of the support we can offer to Parliamentarians.

I recognise that busy members and ministers don't have the time to peruse websites, however packed with insight. We have therefore distilled some of the most important messages from our work on value for money and brought them together in this short document.

We have focused on those elements of public spending where we see most scope for improvement in efficiency and effectiveness. These are relevant to all parts of government and are intended to help maximise new programmes' chances of success and avoid the repetition of past problems.

I hope you find this a useful introduction to the insights available from the NAO. As an officer of the House of Commons, I am keen to engage with members and ministers to maximise the value of our work. Do get in touch if you would like to know more about our work, on parliament@nao.org.uk.

Gareth Davies,
Comptroller and Auditor General

INTRODUCTION

Government spends around £1.2 trillion a year on public services and infrastructure, state pension and debt interest. Demographic changes are driving higher demand for health and social care, climate change requires an economy-wide programme of decarbonisation and investment in resilience, and the geopolitical situation is challenging the adequacy of defence and cybersecurity arrangements. Tax and borrowing are at historically high levels, while economic growth has tracked below the long-term trend rate since the 2008 financial crisis. It has never been more important for government to get the most out of every pound of public money.

> There are significant opportunities for government to get better value for public money through well managed innovation, including adopting new technologies

As well as auditing the accounts of over 400 public bodies, the NAO publishes around sixty reports a year examining the value for money of different aspects of government spending. This work covers major programmes such as HS2 and the New Hospitals Programme, the financial performance and sustainability of key public services, and cross-government reviews of topics such as commercial procurement and digital transformation. The Committee of Public Accounts uses these reports to take evidence from the government officials responsible and make its own findings and recommendations.

The concept of value for money that we use in planning and delivering our work is much broader than the day-to-day efficiency of individual public services, although that is of course an important element.

There are three overriding principles we apply to all our work:

◆ Taking a whole system approach recognising interdependencies and consequences and looking across departmental boundaries

◆ Taking a long-term view, to achieve sustainable goals

◆ Applying sound governance to all programmes and projects

There are significant opportunities for government to get better value for public money through well managed innovation, including adopting new technologies, to increase efficiency and improve services. Achieving these benefits is not easy. It requires, amongst other things, clarity of risk appetite, including a recognition that many innovations fail multiple times before they succeed; a delivery plan and budget that takes account of that; honesty about where the uncertainties lie and how they will be addressed; robust and timely evaluation; and governance arrangements that use evaluation to refine plans in flight.

To help government improve, we extract the lessons from our work in a form that can easily be applied by practitioners. These lessons learned reports and good practice guides are also published and available on the NAO website. Recent examples include *Delivering value from government investment in major projects* and *Whistleblowing in the civil service*.

In this short report, we have summarised some of the key value for money issues that members in scrutiny roles and ministers in executive roles may find useful to explore. The first section looks at five of the biggest opportunities for spending public money more efficiently and effectively. These are:

◆ Major infrastructure projects
◆ Asset management
◆ Procurement
◆ Digital transformation
◆ Reducing fraud and error

The second section sets out our view of the key enablers of better productivity and how to harness them. The enablers are:

◆ Timely, robust data
◆ Innovation and evaluation
◆ A sustainable approach to planning and spending, and
◆ The leadership, skills and culture to succeed.

Applying this learning will, we believe, result in more effective delivery, better use of resources, and significant savings to the public purse.

SUMMARY OF NAO INSIGHTS

Five financial opportunity areas, and the top lessons to take from our work
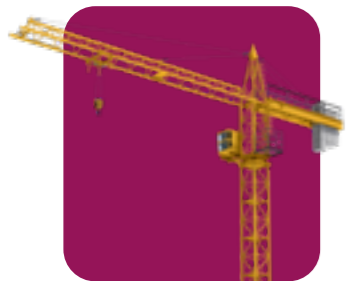
Delivering major infrastructure projects well

Be clear about what the project must achieve, but flexible about how	Involve the organisations you need for success in the project's governance	Create a culture of transparency and honesty	Recognise there are uncertainties and prepare to deal with them	Be clear with stakeholders, including HM Treasury, about the level of uncertainty in budget or timetable estimates

Looking after your assets

|		
Understand the condition of the assets you hold, and the consequences if they fail	Have an up-to-date plan for holding, maintaining and investing in assets that reflects the objectives	Plan ahead for the orderly replacement or decommissioning of assets

Better buying of goods and services

Make use of competition when buying goods and services	Build professional commercial capability to get good value from contracting	Recognise the importance of transparency, especially when there is little or no competition

Successful digital transformation

Understand the challenge presented by legacy digital services	Be realistic about what can be achieved, by when, and at what cost	Make sure you have enough capacity and capability to support the scale of change, at both senior leadership and operational levels
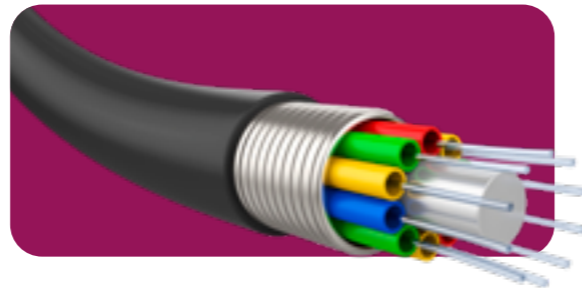
Driving down fraud and error

Always assess the potential for fraud and error in spending plans	Minimise fraud and error by designing it out	Allocate counter-fraud resources and capability in line with the organisation's risk and tolerance of fraud and error

Four enablers of better value, and how to unlock them

Timely, robust data

Assess and improve data quality	Develop and apply consistent data standards	Share your own data and seek access to other organisations' data, with appropriate safeguards in place

Innovation and evaluation

Make use of existing evidence	Set and clearly articulate the risk appetite	Build evaluation into policy design from the start, evaluate as you go along and use the results to refine the approach	Share what is working, what is not, and why	Plan to transition to business as usual

A sustainable approach to planning and spending

Avoid inadvertently prioritising short-term requirements over longer-term value for money	Plan for delivery across organisational boundaries	Prioritise financial management and accountability

The leadership, skills and culture to succeed

Get the right balance of skills in the top team and across the organisation	Plan ahead	Create an organisational culture that encourages people to speak up about risks and opportunities

Areas of financial
opportunity

MAJOR INFRASTRUCTURE PROJECTS

ASSET MANAGEMENT

PROCUREMENT

DIGITAL TRANSFORMATION

REDUCING FRAUD AND ERROR

MAJOR INFRASTRUCTURE PROJECTS

£805 billion: the latest available estimated whole-life cost of the government's 244 largest, most innovative and risky projects. This includes projects like new railways, roads, military equipment, power-generating infrastructure, flood defences and large-scale tree planting, as well as improved schools and hospitals, border controls and benefit administration systems. Many major projects are essential to addressing strategic challenges like decarbonising the economy, boosting economic growth, reducing regional inequalities and improving the nation's resilience.

The top lessons for government from our work are:

Be clear about what the project must achieve but flexible about how you achieve it

By definition, a major project demands significant time, effort and resources. The full benefits are unlikely to be felt for several years, and in the meantime there could be changes to circumstances or assumptions that increase the risk of ending up with a white elephant. To make good decisions and stay on track, departments need clarity from the start and throughout about what they are trying to achieve and the value the project should bring.

What to look for

◆ Before committing to a major project, has the department considered whether it's possible to upgrade, repurpose or adapt instead, to achieve the same or similar outcomes?

◆ Has the department set out a clear purpose for the project, agreed strategic objectives and used this to design a project that will achieve the intended purpose and defined in detail what success will look like?

◆ Has the department built in evaluation from the start, to check progress against objectives and learn lessons on the way?

◆ Has the department considered ways to realise benefits along the way, such as creating apprenticeships or boosting productivity in an industrial sector?

Involve the organisations you need for success in the project's governance

Successfully delivering major projects is likely to require time and investment from organisations across government, in the supply chain, the private sector and wider society. For example, decarbonising the power sector involves a range of bodies, both public sector (including the Department for Energy Security & Net Zero, Ofgem) and private sector (National Grid, energy companies) and the public.

What to look for:

◆ Has the department identified the stakeholders that are needed to make the project a success?

◆ Do the objectives and definitions of success reflect the requirements of the people who will use, operate or benefit from the project?

◆ Are the leadership, governance, performance reporting and accountability arrangements for all the elements that contribute to success clear?

Create a culture of transparency and honesty

Senior leaders of major projects need relevant, accurate and timely performance information to make decisions and monitor progress. When this is lacking, we see over-optimism and problems not raised quickly enough to be addressed effectively. In some cases, internal or external pressures on sponsor or delivery bodies can make them defensive and allow a culture of only reporting 'good news' to develop. The more complex, high profile and challenging the project, the greater that risk. Senior officials have a responsibility to seek out external challenge and assurance, and to be transparent about how they have made decisions.

What to look for:

◆ Has the department set up robust reporting to provide decision makers with adequate information about progress and risks, at the time they need it?

◆ How do leaders show they want early warning of problems and do officials at all levels feel comfortable sharing progress updates – both good and bad?

◆ Do officials seek external challenge and assurance, and act on recommendations?

Recognise there are uncertainties and prepare to deal with them

Government projects are among the largest and riskiest undertaken in the UK. They are typically subject to high levels of uncertainty. They exist in a constantly evolving economic, political and social environment; they take a long time to deliver; and they often include innovative approaches. There is no point pretending that things are more certain than they are – decision-makers must make the best choices they can to support value for money, while recognising this uncertainty. Our guide on Managing uncertainty for decision-makers sets out some things to watch out for, questions to ask and case examples.

What to look for:

◆ Can the department describe what elements of its plan are subject to uncertainty, and what the impact of these uncertain factors could be?

◆ Does the department have flexible plans that can deal with uncertainty? This might include taking a phased approach or piloting to 'test and learn' and building flexibility into commercial contracts.

◆ Has the department considered a range of alternative scenarios and developed contingency plans for those it considers most plausible or likely?

Be clear with stakeholders about the level of uncertainty in budget or timetable estimates

Perhaps the most important area of uncertainty for major projects to grapple with is the point at which they can realistically set budgets and delivery dates. We often see budgets and delivery dates being set before crucial factors are fully understood, such as the project's scope, detailed designs, ground conditions or contractor estimates. This can result in budget requirements significantly increasing, or projects drifting on for years without adequate budget to complete the work. It is important for both the organisation seeking funding and those at the centre of government to have a shared view on the level of uncertainty around early budgets and project plans and the ranges involved. Our Survival guide to challenging costs in major projects sets out questions to ask and explains key terminology.

What to look for:

◆ Has the department started with a range of potential costs and delivery dates and then refined them?

◆ Has it clearly communicated them to external stakeholders?

ASSET MANAGEMENT

To enable it to deliver public services, the government holds assets – including land, buildings, infrastructure, IT and intellectual property. For example, the government estate is valued at around £496 billion, with annual running costs of £21.7 billion. Assets inevitably deteriorate and need to be maintained, and in some cases ultimately replaced. It is usually cheaper to maintain an asset than to allow it to fall into disrepair and then repair it. Many areas of government have built up significant backlogs in asset maintenance, particularly in terms of buildings and digital systems. If these are not addressed they pose significant risks to government's ability to deliver reliable, resilient public services and make progress on its priorities.

The top lessons for government from our work are:

Understand the condition of the assets you hold, and the consequences if they fail

Without good data it is not possible to understand the level of risk from asset failure, or the maintenance costs to plan for. A good understanding of assets includes understanding the condition of the assets; their relative importance; and the consequences – for government's objectives, the economy, or the public – of their current condition. The annual accounting and audit process can help departments to understand the value and annual costs of assets, and any significant liabilities or impairments to their value.

What to look for:

◆ Does the department have a complete, accurate and up-to-date asset register, including location, age, condition and performance of assets?

◆ Does the department understand how the condition of its assets is currently affecting its ability to deliver its objectives? Are the relevant risk registers updated to reflect risks arising from poor quality-assets?

◆ Can the department identify whether any assets are currently at risk of critical failure? Does it have in place both investment plans and contingency plans for failure?

Have an up-to-date plan for holding, maintaining and investing in assets, that reflects the department's objectives.

Holding assets brings costs as well as benefits, including maintenance, storage and running costs. As an organisation's priorities change over time, it may find itself holding assets it no longer needs. In our work we have found examples of departments spending millions of pounds to store equipment they have no prospect of using. Organisations may be more reliant on some assets than on others, either to function as organisations or to achieve their policy objectives, and maintenance plans should be based on an understanding of what is 'good enough' for each asset or asset type.

It is usually cheaper to maintain assets than to repair them, and often cheaper to bring assets in disrepair back to use than to build from scratch. When considering investments in their asset base, organisations should assess whether the investment is best directed at maintaining existing assets, bringing those in disrepair back into service or investing in new assets.

What to look for:

◆ Is the department holding assets it no longer needs? Has it assessed the costs of, or potential cost savings or other benefits from, disposing of these assets?

◆ Does the department set maintenance standards in line with its agreed risk appetite and an assessment of the impact of failure for each asset or asset type?

◆ Where the asset base has fallen below the required maintenance standards, does the department have a prioritised plan (including timelines) to bring it back to standard?

◆ Does the department take a holistic view of investments in its asset base, considering the relative value it can secure from maintaining existing assets, bringing assets in a state of disrepair back up to scratch and investing in new assets?

Plan ahead for the orderly replacement or decommissioning of assets

Most assets have a limited life span. This may be because changes in technology or the wider environment render them obsolete, they were only designed to last for a certain number of years, it is no longer possible to secure the resources or expertise necessary to maintain them, or the organisation's requirements have changed and they are no longer fit for purpose. Organisations that recognise this and plan for decommissioning or replacing assets will be better placed to ensure that their assets can be decommissioned or replaced at a convenient time, that services are not affected when they are taken offline; and that they can secure support services at a reasonable price.

What to look for:

◆ Does the department know which assets it will need to decommission or replace, and when?

◆ Does it have a plan for replacing or decommissioning these assets, that is integrated with its wider business transformation plans?

PROCUREMENT

Around a third of government spending – £393 billion in 2022-23 – goes on buying goods and services. It has moved to professionalise procurement by creating the Government Commercial Function (GCF) with significant financial benefits. But the quality of procurement practices across departments is patchy, and the government still spends more than it should in some areas because it relies too much on expensive temporary contracts and has failed to align commercial incentives.

The top lessons for government from our work are:

Make use of competition when buying goods and services

Effective competition between potential suppliers of goods and services can improve value for money by allowing suppliers to demonstrate how they can improve quality, reduce costs and increase the scope for innovation. It also supports confidence in the integrity and transparency of public spending by introducing benchmarks and alternatives, to inform decisions. The use of markets and competition is one of five key drivers of efficiency set out in The Government Efficiency Framework.

Getting this right can mean major savings – potentially a further £4 billion to £8 billion annually, according to the government's estimates. But government's use of competition is inconsistent. Of £100 billion of contracts awarded by major departments in 2021-22, a third were either direct awards or contract extensions, thereby missing out on the benefits of up to date competition. Departments also increasingly use 'framework agreements', which involve an initial competition for suppliers to gain access to a framework, after which departments can set up contracts without a full procurement exercise. For common goods and services, this can bring competitive benefits with less administrative cost, but it's not always the best way to achieve competition.

Our report Lessons learned: competition in public procurement sets out insights on procurement best practice in the public sector.

What to look for:

◆ Has the department used a full competitive procurement process when procuring goods or services, unless there is a better-value alternative (such as frameworks for common goods and services)?

◆ Does the department make use of collective buying power through wider government procurement arrangements when buying common goods and services?

Build professional commercial capability

The Government Commercial Function is clear that departments should consult potential suppliers and share information about the goods or services it is seeking to procure, while not favouring particular companies. Departments often take an overly cautious approach and are not always clear on procurement rules, because they lack adequate professional commercial capability. Poorly designed requirements and sourcing can lead to few bids, or to government appointing suppliers that prove to be unsuitable.

Professional commercial capability is also essential for managing contracts effectively. Without a good ongoing understanding of the costs and requirements of a contract, and of the supplier's performance and resilience, departments can find themselves with limited ability to ensure they get what they are paying for. Our good practice guide on Managing the commercial lifecycle highlights the key features of good contract management.

What to look for:

◆ Does the department know what commercial capability it needs, and has it got it in place?

◆ How does the department ensure that all contracts it enters into provide the necessary access to data on quality and outcomes so that it can ensure it gets what it is paying for? How does it use this data?

Recognise the importance of transparency, especially when there is little or no competition

Transparency helps support accountability for procurement decisions and get better value by mitigating the risks associated with non-competitive contracts, but government's practice is not good enough. Poorly managed risks have been too common across government, including potential bias or conflicts of interest in the procurement process, and some contracts being given to unsuitable suppliers.

For each of the quarters during 2022, only five out of 16 government departments published a complete set of data on forthcoming contracts. The poor quality of much of government's published data on contracts also makes it harder for government to identify and promote best practice. From October 2024, departments will be required (under the Procurement Act 2023) to publish specific information on all new contracts that are awarded directly without a competitive process.

What to look for:

◆ Set the tone from the top that transparency is the expectation.

◆ Check that publication of contracts is up to date and remove any blockers to this being done promptly and easily.

DIGITAL TRANSFORMATION

Digital transformation of government services has the potential to deliver huge efficiency gains – the Cabinet Office's vision is [for central government] to deliver over £1 billion in efficiency savings between 2022 and 2025 by eliminating the unnecessary costs of paper-based services and processes. But many departments are starting from a low base. This is not just a 'back-office' problem – for example, outdated IT and manual processes contributed to around 134,000 pensioners, mostly women, being underpaid over £1 billion.

Our report on The challenges in implementing digital change found a consistent pattern of government underperformance in delivering digital business change and we have published Digital transformation in government: a guide for senior leaders and audit and risk committees.

The top lessons for government from our work are:

Understand the challenge presented by legacy digital systems and processes

'Legacy' means those older systems, data and processes that are still a core part of government services but increasingly costly to maintain or difficult to update. Legacy systems make services less adaptable and expose a department to increased costs and risk of failure. The state of many legacy systems often means operational services cannot be modernised efficiently.

In the past, with a poor grasp of the state of its legacy systems, government has tended to resort to piecemeal change, such as superficially improving the citizen's online experience rather than transforming the underlying services.

What to look for:

◆ Does the department have a detailed understanding of the state of its legacy systems and data, the barriers and dependencies they present and the cost of supporting them, and does it use this to inform its plans for change?

◆ Are digital change projects part of an integrated plan for gradual business transformation, or are they piecemeal cosmetic changes?

Make plans based on an informed assessment of what can be achieved, by when, and at what cost

Government faces significant challenges in getting its vast, ageing digital estate up to standard while continuing to deliver services that have no counterpart in the private sector. Digital business change is highly complex and involves uncertainties that must be acknowledged and explored up front, such as user behaviour and rapidly advancing technology. Spending more time early on designing and testing new systems can make implementation more efficient. New technologies such as artificial intelligence also provide opportunities for innovation, but only if business leaders understand in detail how best to harness them and manage the risks they present.

When government departments set expectations for their programmes that are not informed by a good understanding of what can be achieved, these expectations can lead to unnecessary specifications that increase cost and complexity.

What to look for:

◆ Has the department fully explored the technological and wider change required, the dependencies and the uncertainties, before setting clear objectives?

◆ Did the department stop considering alternative solutions or suppliers too early in the programme?

Make sure you have enough capacity and capability to support the scale of change, at both senior leadership and operational levels

Digital expertise is under-represented among permanent secretaries and directors general, compared with other types of expertise – such as policy and finance. Experienced digital leaders coming into the Civil Service often struggle to get the attention, understanding and support they need from senior decision makers. At working level, too, many departments face a large capacity gap in people with digital skills.

Digital skills are in demand across the economy, and more than a third of government recruitment campaigns for digital, data or technology roles are unsuccessful in the face of high demand and competition from the private sector.

What to look for:

◆ Does the department have experienced digital leadership at board level?

◆ Has the department got a clear plan that identifies and secures the people, skills and funding it needs to deliver its digital ambitions, both to support business as usual and carry out major change projects? Is the plan on track?
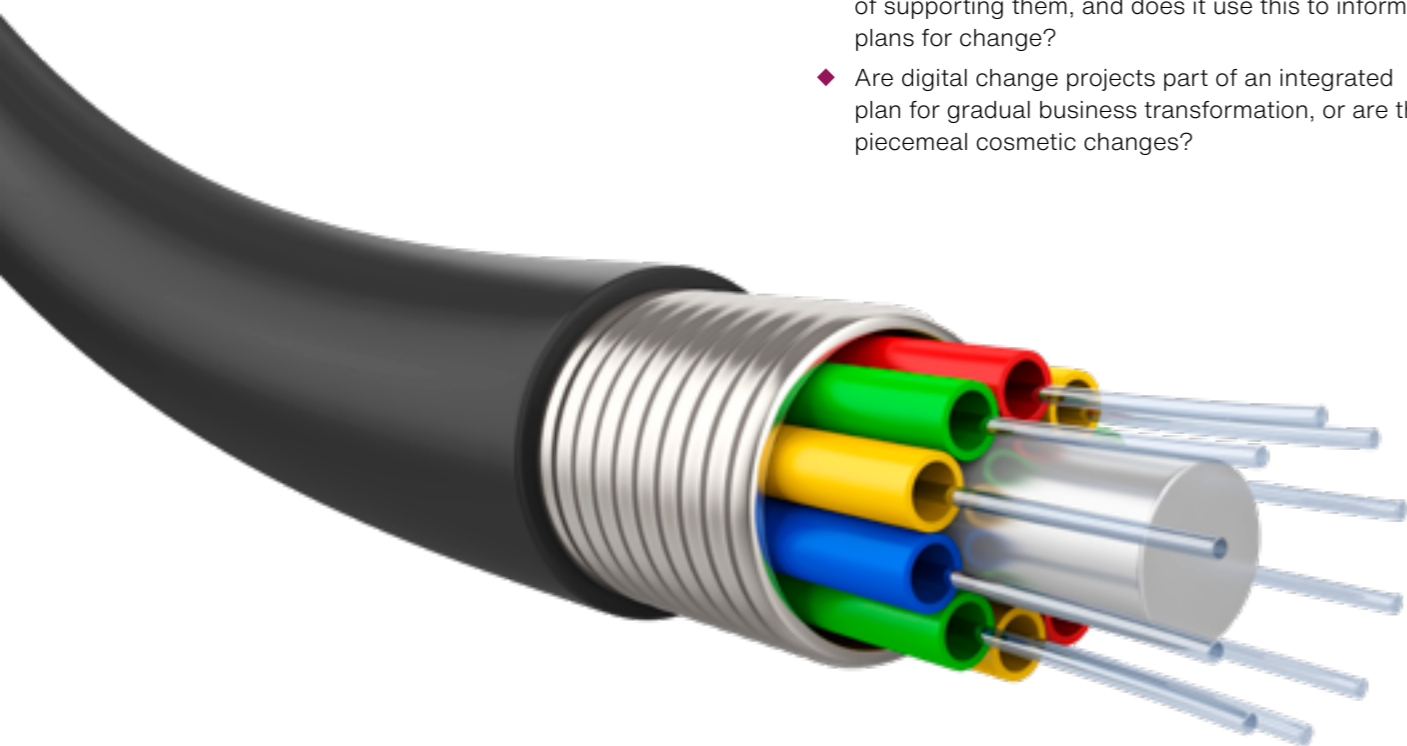
REDUCING FRAUD AND ERROR

Reported levels of fraud and error in government expenditure have doubled since the pandemic to over £11 billion a year. This is largely driven by a sustained increase in benefit fraud since the introduction of Universal Credit, but also by other areas of government getting better at recognising and reporting fraud and error. The accounts we audit reported £7.3 billion of fraud in temporary COVID-19 schemes.

A perception that fraud against taxpayers is tolerated could affect public confidence in the integrity of public services. In the Transparency International survey of public and businesses, the UK fell from 8th to 20th of 180 countries in perceived level of corruption over six years to 2023. As well as tackling this perception, we want government to view fighting fraud and error through the lens of achieving savings – potentially billions of pounds a year.

The top lessons for government from our work are:

Always assess the potential for fraud and error in spending plans

All public bodies have a responsibility to minimise the risk of fraud. Accounting officers, usually the Permanent Secretaries of departments or chief executives of arm's length bodies, are personally responsible for managing their organisation's response to fraud and error risks. To do this properly, they need information about the scale of the risk, including both current estimated levels of fraud and the potential for abuse in new initiatives.

HM Revenue & Customs and the Department for Work & Pensions have undertaken robust assessments of the level and types of fraud affecting their business, but few other areas of government have, so actual levels are likely to be higher than reported. The Public Sector Fraud Authority recently estimated that two-thirds of central government expenditure is not subject to any direct fraud and error measurement. It is now working with departments to improve risk assessment and measurement across government, while HM Treasury has started to require initial fraud impact assessments as part of programme business cases.

What to look for:

◆ Has the department undertaken robust assessments of the level and types of fraud and corruption affecting its business?

◆ Are fraud risk assessments routinely carried out before new spending is approved?

Minimise fraud and error by designing it out

It is far more difficult and costly to detect and pursue fraud than to prevent it taking place. But two-thirds of counter-fraud officials work on investigating fraud, rather than preventing it. With a proper, open assessment of fraud risks, it may be possible to find ways to 'design out' the potential for fraud.

Public bodies should aim for cost-effective controls that minimise fraud risks as much as possible while also securing their other objectives (for example, ensuring people can access payments and services to which they are entitled). Our 2023 report on Tackling fraud and corruption against government found departments at different stages of maturity in introducing effective controls to prevent fraud, with none fully mature. In particular, cost-effective fraud prevention requires much better use of data and information, and data sharing between government bodies can be a barrier.

What to look for:

◆ Has the department explored ways of designing out opportunities for fraudsters before launching new spending programmes?

◆ Does the department regularly test how well controls are working, monitor any changes and update the assessment of fraud and error risk? Does it use this analysis to continuously improve its system?

Allocate counter-fraud resources and capability in line with the organisation's risk and tolerance of fraud and error

Preventative controls rarely eradicate the risk of fraud completely, and fraudsters continually seek out and discover new ways to exploit systems. DWP and HMRC have well-established ongoing counter-fraud and compliance teams, but even there we have found capacity and capability challenges. Most other departments have only limited capability and cannot demonstrate that it is proportionate to their risk. In 2023, some 84% of government's counter-fraud staff worked for DWP or HMRC, while the rest mostly work in small teams specialising in tightly focused areas of expenditure, which means the government lacks capacity to adapt to new and unknown risks. Counter-fraud staff across government told us managing fraud and corruption was rarely a priority for senior leaders and is not embedded in operations.

What to look for:

◆ Has the department clearly articulated its fraud risk appetite and tolerance in terms of the trade-offs between its objectives (for example, customer service, the targeting of payments and risk of abuse)?

◆ Has the department put in place the resources needed to manage the risk in line with its stated tolerance (for example, by allocating dedicated funding in programme business cases)?

The enablers of **better value,** and how to unlock them

TIMELY, ROBUST DATA

INNOVATION AND EVALUATION

A SUSTAINABLE APPROACH TO PLANNING AND SPENDING

THE LEADERSHIP, SKILLS AND CULTURE TO SUCCEED

Throughout our work we have observed a few common enablers that underpin success. Where programmes or organisations have these in place they are better able to understand what they have to work with and the challenges they face; to design and deliver effective solutions; and to continue to learn and improve as their operating environment changes.

TIMELY, ROBUST DATA

We have seen some examples of departments using good quality data to spot problems early, generate new insights by combining data and dramatically improve their operational performance. However, much of government's data in legacy systems is old and lacking integrity. This means that large numbers of people and additional processes are needed to make that data usable for the kind of services needed today, which is costly and inefficient. It also makes it much harder for government to detect fraud. The three key elements are:

◆ **Assess and improve data quality.** Departments need to understand the quality of their data and the potential risks arising from errors in a given data source, so that they can target improvement where it is most needed.

◆ **Develop and apply consistent data standards.** Consistent data standards can enable more efficient use of data (for example, joining different data sets to identify new insights).

◆ **Share your own data and seek access to other organisations' data, with appropriate safeguards in place.** Sharing data between organisations with a common purpose or dealing with the same stakeholder group can provide new perspectives and prevent service users having to repeat themselves.

As a minimum, a department or public body should have assessed its data maturity and have an enterprise-wide data strategy that fits with its overall objectives.

Further resources

Our good practice guide on Challenges in using data across government sets out the key elements of success, including clear strategy and leadership, a coherent infrastructure for managing data, and broader enablers to safeguard and support the better use of data.

INNOVATION AND EVALUATION

Government can only tackle many of the challenges it is facing if it is prepared to innovate: it is dependent on technologies not currently in use in the UK to reach its net zero target, and the development of vaccines during the COVID-19 pandemic demonstrated how well-managed innovation can deliver results at speed. Innovation can also secure improvements to existing services as new technology and ways of working unlock opportunities to achieve more with less. To do this – in addition to setting an appropriate risk appetite and a project plan that recognises that many innovations fail multiple times on the way to succeeding – it is vital that government uses evaluation to track its progress, and acts on the results. Evaluation means examining what has worked and what has not, and why. Without it, organisations are flying blind. The following approaches make it more likely that innovation and evaluation will succeed:

◆ **Make use of existing evidence.** Draw on the existing evidence to help shape the design of policy options and identify where there are gaps that evaluation can help fill.

◆ **Set and clearly articulate the risk appetite.** Many innovations will fail multiple times before they succeed. We have seen examples in our work where government starts to pursue an innovative approach and then cancels the programme before it can deliver results, in some cases several times. Clearly articulating the risks and agreeing them with key stakeholders, including the centre of government, can reduce the risk of this happening.

◆ **Build evaluation into policy design from the start, evaluate as you go along and use the results to refine the approach.** To do this, it is essential to clearly set out what a policy or programme is intended to achieve, so analysts can design measures to see if it is working. Ongoing evaluation enables organisations to exploit successes and tackle problems as soon as they emerge, and gives confidence that things are on track. Consider building in opportunities to do this, such as through pilot schemes or phased roll-out. It may be best value for money to trial multiple options and narrow the selection down as results become clear. This approach requires prompt and robust evaluation of progress, and a clear governance structure that can take timely decisions based on this evidence.

◆ **Share what is working and what is not, and why.** Sharing evaluation results widely and in an accessible way, including with academics and other stakeholders, can ensure valuable lessons do not go to waste and avoid civil servants having to start from a blank slate with every new policy.

◆ **Plan to transition to business as usual.** The UK is a world leader in research and innovation, but we have found that in some cases government's support for innovative technologies does not adequately cover the whole process (including the transition from research and development through prototype, build and scale, proven commercial proposition and then capital markets ready). Without this, promising innovations may never be able to reach their potential market.

Further resources

Our Evaluating government spending report and accompanying good practice guide Evaluating government spending: an audit framework set out how to do this well and are intended to complement government's own technical guidance on evaluation, including The Magenta Book.

A SUSTAINABLE APPROACH TO PLANNING AND SPENDING

Government has limited resources and a daunting list of areas requiring investment and improvement. Our work has identified approaches that departments can take to help them get the most from the available resources. The centre of government also has a crucial role, to ensure that the frameworks it puts in place across departments do not create perverse incentives that undermine value for money overall. The key elements are:

◆ **Avoid inadvertently prioritising short-term requirements over longer-term value for money.** There may be occasions when it is necessary to trade longer-term value for money and resilience against shorter-term imperatives (for example, in an emergency). However, we have seen many examples across government where a focus on the short term has had unanticipated longer-term consequences. This is particularly the case when government attempts to identify efficiency savings without a full understanding of the additional costs this could create elsewhere, or reduces spending on maintenance, resulting in higher replacement or repair costs across its asset base. To take a longer-term focus, departments need to understand and set out their objectives and risk appetite and allocate funding in line with this. Where possible, it is usually better value to prevent harm or cost than to fix it later. This is true in terms of asset management but also in terms of preventing poor health or social harms, though it can often be challenging to establish a clear link between an intervention and its preventative impact.

◆ **Plan for delivery across organisational boundaries.** Many of the challenges facing government cannot be solved by one department, or by government alone. They require joint working across departments, between central, regional and local government, and with industry and other stakeholders. Initiatives will be most likely to succeed when they take account of what these different stakeholders need, whether it's certainty about direction of travel to encourage industry to invest, or multi-year funding settlements for local government, to enable it to plan and deliver efficiently. Expenditure by one part of government may reduce cost to another part, but the current approach to planning and spending provides limited incentive for departments to allocate their resources to saving money for other parts of government, even when it would be better value overall.

◆ **Prioritise financial management and accountability.** Without strong financial management, government cannot put its limited resources where they will achieve the most good. This starts with gathering robust costing data when designing and approving projects or programmes, and then tracking spend against delivery to ensure both that programmes are likely to stay within budget and that the spending is leading to the anticipated results. We have seen numerous examples where initial programme budgets turned out to be too low. This can be because there is genuine uncertainty about likely costs, in which case, government should acknowledge the uncertainty and set out clearly how it will be managed.

Further resources

We have produced good practice guidance on Tackling fraud and protecting propriety in government spending during an emergency, Efficiency in government and Cross-government working: good practice. We are also producing a series of guides on financial management in government, including Enablers of success, and strategic planning and budgeting.

THE LEADERSHIP, SKILLS AND CULTURE TO SUCCEED

Public sector salaries are the largest element of its running costs, at £284.5 billion in the 2021-22 Whole of Government Accounts. An engaged, inspired and skilled workforce can help organisations achieve their objectives, spot improvements and manage risks. On the other hand, organisations that cannot recruit or retain the required skills, or where staff do not feel able to speak up about opportunities or costs, face increased costs and a reduced chance of success. We have reported on people issues within individual programmes and across the civil service. The key enablers we have identified are:

◆ **Get the right balance of skills in the top team and across the organisation.** An organisation's role, the risks it faces, and the opportunities available now and in the future, all make a difference to the kind of leadership skills it needs. In particular, leaders need sufficient capability in specialist areas, such as digital, commercial and project delivery, to enable them to ask the right questions and understand the implications. Teams also need people with the right balance of skills and for them to be properly integrated into the team. It may be helpful to consider multidisciplinary teams, such as those with operational skills working with policy teams to adequately consider delivery risks before policy design is finalised.

◆ **Plan ahead.** Skills shortages in key areas can cause delivery to fall behind, but staff development and recruitment take time and some skills are in high demand across government and the economy more generally. If the required staff are not available, programmes may need to pause, delay or reorder work to make the best use of the skills available. Using contractors to fill skills gaps is expensive, but not necessarily poor value for money if they have specialist expertise not available in house, they are required in the short term so permanent recruitment would not make sense, or in extremis where you cannot recruit the skills you need on an ongoing basis. An up-to-date, strategic workforce plan can help organisations manage the pipeline of skills they need and minimise the likelihood and impact of skills shortages.

◆ **Create an organisational culture that encourages people to speak up about risks and opportunities.** An organisation's culture has a huge impact on its success. Many of the most significant failures we see in our reports were not completely unforeseen in the organisation, but people who were aware of the problems did not feel able to raise concerns or were not listened to when they did. By the same token, front-line staff are well placed to identify significant improvements to productivity and the quality of services to citizens, because they see what causes delays and dissatisfaction. Successful organisations develop a shared understanding of their purpose and role and empower their people to deliver it.

Further resources

We have reported on Civil service leadership capability, Whistleblowing in the civil service, and sector-specific work on NHS England's modelling for the Long Term Workforce Plan and Civil service workforce: Recruitment, pay and performance management.

FURTHER RESOURCES

The following NAO publications can all be found on our website www.nao.org.uk

Good practice guides and lesson learned reports

Managing uncertainty for decision-makers

Survival guide to challenging costs in major projects

Lessons learned: Competition in public procurement

Good practice guide: Managing the commercial lifecycle

Lessons learned: The challenges in implementing digital change

Digital transformation in government: a guide for senior leaders and audit and risk committees

Good practice guide: Challenges in using data across government

Evaluating government spending: an audit framework

Lessons learned: Tackling fraud and protecting propriety in government spending during an emergency

Lessons learned: Efficiency in government

Good practice guide: Cross-government working

Good practice guides on financial management in government, including Enablers of success, and strategic planning and budgeting

Good practice guide: Whistleblowing in the civil service

Value for money audits and investigations

Tackling fraud and corruption against government

Evaluating government spending

Civil service leadership capability

Whistleblowing in the civil service

Civil service workforce: Recruitment, pay and performance management

National Audit Office