INSIGHT

Financial management in government: allocating resources

National Audit Office

Good practice guide

December 2024

This guide aims to provide insights and good practice on how to allocate resources for better financial management in government.

We are the UK's independent public spending watchdog

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Insights

Our insights products provide valuable and practical insights on how public services can be improved. We draw these from our extensive work focused on the issues that are a priority for government, where we observe both innovations and recurring issues. Our good practice guides make it easier for others to understand and apply the lessons from our work.

We are the UK's independent public spending watchdog. We support Parliament in holding government to account and we help improve public services through our high-quality audits.

The National Audit Office (NAO) scrutinises public spending for Parliament and is independent of government and the civil service. We help Parliament hold government to account and we use our insights to help people who manage and govern public bodies improve public services. The Comptroller and Auditor General (C&AG), Gareth Davies, is an Officer of the House of Commons and leads the NAO. We audit the financial accounts of departments and other public bodies. We also examine and report on the value for money of how public money has been spent. In 2023, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £1.59 billion. This represents around £17 for every pound of our net expenditure.

Overview

Why is financial management so important to government organisations?

Good financial management is essential for all organisations. For organisations in government particularly, financial management can be a driver for greater efficiency and productivity and for optimising the use of public money. Financial management is central to helping accounting officers exercise their responsibilities to the taxpayer as set out in Managing Public Money.

The test for government organisations is to make the best use of finite resources to deliver services to taxpayers in a way that secures value for money at a time when the public service landscape is more complex and challenging than ever. This represents both a significant challenge and an opportunity for finance leaders.

The Government Finance Function's vision is to put finance at the heart of decision making.[1] Our work on financial management reinforces the importance of this message. Finance teams can see across everything an organisation does. They can control and interpret information, and they can be a crucial support and enabler to the business. They are uniquely placed to help balance priorities not just within their own organisation but across government more widely.

How to use our guidance

Our good practice guides set out why finance teams have a crucial role in helping their organisations navigate future challenges – from promoting accountability and realism, to providing trusted and timely information, and working across boundaries to deliver efficiencies and greater value.

Our guides provide a number of actions across the entire financial management lifecycle that allow **senior finance leaders** to assess the health of their finance function at regular intervals.

Our guides can also be used by **Audit and Risk Assurance Committees** to assess how well organisations are equipped to deal with financial management challenges.

We draw on the insights from the National Audit Office's (NAO's) back catalogue of work, the experiences of our audit teams, and the thoughts of a range of senior finance decision makers across and beyond government.

Through our insights work we make it clear that financial management enables government organisations to:

- make more timely and well-informed decisions;
- unlock efficiencies and drive better ways of working; and
- improve financial resilience and enhance their ability to adapt and respond to shocks and disruptions.

Our insights do not represent mandatory guidance. They complement existing guidance provided to finance teams across government by the Government Finance Function, such as the Finance Functional Standard and guidance provided through One Finance.

Our good practice guides are primarily written for senior finance leaders within central government. However, the actions and practical tips in this guidance may also be useful for other areas of the public sector and beyond.

1 Government Finance Function, *Government Finance Function Strategy 2022-25*, June 2022.

Overview

Our financial management good practice series

Allocating resources is the third guide in our series on financial management in government. Our guides span the full financial management lifecycle.

- *Enablers of success* explores the fundamental themes that underpin each stage of the financial management lifecycle, and how finance leaders can make the most of our guides.
- *Strategic planning and budgeting* outlines how finance leaders can plan strategically and realistically in the face of an uncertain landscape – whether in terms of policy direction or funding.
- *Monitoring and forecasting* will outline how finance leaders can improve monitoring to understand activity and performance and enhance forecasting across organisations to reduce variances and manage risks and opportunities more effectively.
- *Reporting* will demonstrate how finance leaders can lead their teams to make the greatest impact to stakeholders on financial performance.

Introduction

Allocating resources

This guide provides finance leaders with actionable steps to allocate resources effectively, especially when resources are scarce and difficult trade-offs need to be made. We use the term ‘resources’ to mean the money available to the organisation to deploy, to pursue its strategic objectives. Allocating those resources primarily takes place as the final stage of the budgeting process; however, we also consider how resources can be re-allocated as part of in-year financial management. Our guide focuses on three key principles:

- Use information intelligently
- Prioritise effectively
- Build for the long term

The National Audit Office has talked about the importance of allocating resources effectively in the past.

- In *Making public money work harder* we said that without strong financial management, government cannot put its limited resources where they will achieve the most good.[2]
- In *Improving government’s planning and spending framework* we noted that the way central government plans and allocates resources is critical to improving the efficiency and effectiveness of public spending.[3]
- In *Lessons learned: a planning and spending framework that enables long-term value for money* we stated that government has limited resources and a list of areas requiring investment and improvement – it has never been more important for the government to get the most out of every pound of public money.[4]
- In *Efficiency in government* we highlighted the need for organisations to consider long-term benefits and costs when making allocation decisions rather than focusing just on short-term priorities to identify efficiency gains.[5]

2 Comptroller and Auditor General, *Making public money work harder: Learning from recent NAO work*, Session 2024-25, HC 572, National Audit Office, July 2024, page 22.
3 Comptroller and Auditor General, *Improving government’s planning and spending framework*, Session 2017–2019, HC 1679, National Audit Office, November 2018, paragraph 1.
4 Comptroller and Auditor General, *Lessons learned: a planning and spending framework that enables long-term value for money*, Session 2024-25, HC 234, National Audit Office, October 2024, paragraph 2.
5 Comptroller and Auditor General, *Efficiency in government*, Session 2021-22, HC 303, National Audit Office, July 2021.

Key takeaways

The table below outlines the three principles that finance leaders can focus on when it comes to allocating resources. For each principle, we describe what good looks like, and the key actions and practical tips finance leaders can take to enhance how effectively they allocate resources in their organisations. We go into more detail on each of these principles on pages 7 to 16.

Principle	What good looks like	Key actions for finance leaders	Practical tips
Use information intelligently	The organisation uses trusted and objective information intelligently so it can allocate resources to support strategic objectives.	Encourage a culture where everyone in the organisation can easily interact with financial information on a routine basis.	Create dashboards that display real-time information on how resources are allocated across the organisation by strategic objective.
		Communicate the features and embed the use of good financial information across the organisation.	Showcase examples where quality information has helped the organisation to make good allocation decisions.
		Present information in a way that enables intelligent decision making.	Work with the risk management function to incorporate scenario modelling into the allocation process so that decision makers understand the implications of different options.
		Incorporate historical information and performance in resource allocation decisions.	Keep a log of major decisions where lessons have been logged for future reference and undertake a post-implementation review after three years.
Prioritise effectively	Finance leaders support decision makers to make difficult decisions and trade-offs to generate good value-for-money outcomes based on agreed priorities.	Work closely with senior leaders to identify trade-offs and establish the basis on which they are resolved.	Establish a prioritisation framework that ranks allocation options against a range of quantitative and qualitative measures.
		Gain organisational buy-in to decision making by being transparent on the basis on which allocation decisions have been made.	Publish the prioritisation framework internally to show the basis on which difficult allocation decisions are made.
		Evaluate the success of previous prioritisation decisions to enable more intelligent decisions around trade-offs in the future.	Conduct an annual lessons learned exercise assessing the success of outcomes from previous prioritisation decisions.
Build for the long term	Resource allocation decisions balance short-term pressures with long-term priorities and are aligned with the strategic objectives of the organisation to build resilience and preserve long-term value for money.	Encourage better scenario planning to give a more realistic and risk-based view of future costs.	When considering different scenarios, identify key areas of uncertainty that need to be re-assessed in future.
		Ensure that longer-term assets and liabilities are given sufficient attention.	Have an up-to-date plan for holding, maintaining and investing in assets, that reflects the department's objectives.
		Advocate that capital budgets are prioritised to support investment in areas that will improve long-term sustainability and resilience.	Develop a key performance indicator around long-term sustainability and building resilience.

Use information intelligently

What good looks like

The organisation uses trusted and objective information intelligently so it can allocate resources to support strategic objectives.

Why this is important

Government departments manage their annual budgets in line with *HM Treasury's consolidated budgeting guidance*. HM Treasury's system is designed to "appropriately incentivise departments to manage spending effectively" and "[to support] the provision of high-quality public services that offer value for money to citizens".[6] Annual budgets are maintained within spending reviews, which are usually multi-year periods designed to help longer-term planning. However, these have become less regular since 2010, including some one-year spending reviews.

Within this context, an additional challenge raised in our discussions with senior leaders is that government organisations do not always have full certainty on their approved budget until partway through the financial year. This places a real importance on organisations' ability to respond effectively to changes in plans – and reassess planning assumptions and initial allocations of resources. In our report on *NHS Financial Management and Sustainability* we saw that delays in HM Treasury and Department of Health & Social Care's approval of NHS England's overall budget and planning guidance had implications for the NHS's ability to plan effectively.[7]

Uncertainty is a known factor for government organisations.[8] Therefore, organisations that emphasise the importance of high-quality financial information are much better positioned to overcome challenges effectively and in a timely manner. This is crucial because issues stemming from inadequate data (as highlighted in **Figure 1**) or poor information can delay or inhibit leaders from allocating resources in an evidence-driven way. For instance, where organisations gather diverse financial information from multiple sources which may not always align, this can create a dilemma: should they delay allocation decisions until they are satisfied with the quality of consolidated information or make quicker decisions based on potentially inadequate or incomplete data? By focusing on accurate and reliable financial information, organisations can navigate these challenges more effectively, ensuring timely and informed resource allocation.

In our report *Making public money work harder* we emphasised the importance of gathering robust costing data when designing and approving projects or programmes and reflected on the numerous examples where initial programme budgets turned out to be too low.[9] We explain that "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."

Finance leaders have a crucial role in two ways:

- by advocating the importance of robust data which can be used for cost profiling and analysis and better managing uncertainties on capital spend; and
- by working with the business to fully understand the drivers of cost, particularly in complex areas of public service delivery.

Decisions are only as intelligent as the information that supports them. Decision makers therefore require information that provides them with an understanding of the consequences of allocating resources when there are multiple options. This information needs to be assured and reviewed regularly to identify any reporting gaps. At times, the volume of management information available to decision makers can be overwhelming – adding layers of complexity and noise in an environment where decision making needs to be dynamic and agile. As a result, finance's role in promoting the use of relevant, accurate and timely information can directly lead to more effective allocation decisions.

6 HM Treasury, *Consolidated Budgeting Guidance: 2023-24*, page 5.
7 Comptroller and Auditor General, *NHS Financial Management and Sustainability*, Session 2024-25, HC 124, National Audit Office, July 2024, paragraph 9.
8 Comptroller and Auditor General, *Managing uncertainty: Questions for decision-makers to ask in an uncertain environment*, August 2023.
9 Comptroller and Auditor General, *Making public money work harder*, HC 131, National Audit Office, July 2024, page 22.

Use information intelligently *continued*

How finance leaders can address this

- **Encourage a culture where everyone in the organisation can easily interact with financial information on a routine basis.** An open culture, when it comes to financial information, offers greater transparency and allows budget holders to benchmark their costs and plans to others'. This increased transparency will lead to more opportunities for collaboration and people will see the benefits of information being presented in a consistent way.

Practical tip: Create dashboards that display real-time information on how resources are allocated across the organisation by strategic objective.

- **Communicate the features and embed the use of good financial information across the organisation.** To arrive at the best possible allocation decisions, leaders rely on information that is relevant, timely and accurate – and has been subject to an appropriate level of assurance. This is the first step towards integrating high-quality financial information into everyday processes and decision making. Finance teams can advocate the importance of this as part of their support to budget holders.

Practical tip: Showcase examples where high-quality information has helped the organisation to make good allocation decisions.

- **Present information in a way that enables intelligent decision-making.** Decision makers value information that allows them to understand the implications of decisions they make. When assimilating information, finance teams should look to tell a compelling story about how resources can be best allocated, work with different functions to build a holistic view and make use of advancements in technology to do this, where relevant. Organisations should also place value on senior decision makers' ability to interpret, challenge and work with digital information.

Practical tip: Work with the risk management function to incorporate scenario modelling into the allocation process so that decision makers understand the implications of different options.

- **Incorporate historical information and performance in resource allocation decisions.** It is important to see the process of allocating resources as continuous and one that relies on incorporating better information and learnings from previous exercises. Evaluating how previous allocation decisions have been made, continually pushing to understand more about the drivers of cost and assessing the effectiveness of outcomes will all provide vital insights that should feed into in-year allocation decisions.

Practical tip: Keep a log of major decisions where lessons have been logged for future reference, and undertake a post-implementation review after three years.

Use information intelligently *continued*

Figure 1

Substantive issues with government data highlighted in our 2022 guide, *Improving government data*

Our report highlighted three issues that need to be overcome when using data in government

Finance leaders must overcome the following issues to ensure decisions are evidence based, utilising good-quality data.

The quality of data is not well understood

Quality data is not a 'free good'. While government has repeatedly talked about the benefits arising from better use of data, new initiatives often expose the poor quality of the data itself and the lack of a structured approach to address the underlying causes.

Data is not always seen as a priority

It can be challenging to make the case for long-term investments to improve the quality and sharing of data. A lack of understanding of the costs involved in cleaning, combining and improving data within the constraints of existing systems exacerbates the challenge. People do not monitor the time or costs involved in sorting poor-quality, disorganised data.

There is a culture of tolerating and working around data that is not fit-for-purpose

Government has lacked the necessary capability, leadership and culture to introduce and support sustained improvements.

Source: Comptroller and Auditor General, *Improving government data*, National Audit Office, July 2022, page 4

Case study

Background: The Crown Prosecution Service (CPS) has developed a model that allows it to allocate resources effectively to different prosecution cases. The model is owned by the finance function, and it enables key working-level decisions to be made collectively between operations, HR and the finance function.

Approach: The CPS allocates its staff based on standard operating procedures that are mapped on a model. The CPS uses the volume of cases from its management information system and combines them with other types of data to calculate the number of resources required to complete administrative and legal tasks. For example, staff are asked to record how long a standard process takes over a period of 12 months to calculate the average time that process takes. The model will produce a report that brings together the imported data and model structures to calculate the number of people needed for a specific activity. The data for different activities are then added together to produce an estimate of the overall resources required. Outputs from the model can be used by finance managers and budget holders for budgeting and forecasting.

Benefit: This model provides trusted information and a consistent basis for allocating people to different prosecution cases, helping to improve transparency over allocation decisions. This allows the finance team to play an instrumental role in how resources can be allocated, bringing together information from across the organisation. It has also helped to reduce the time it takes for people to find the data they need and, by using the data produced by the model, CPS can support requests for additional funding with strong evidence.

Quote

"Integration is needed for effective resource allocation. That means having clear processes and working closely with delivery, policy and strategy teams to understand what resources are needed. It is important for our finance business partners to work very closely with the business to triangulate information for decision making."

Louise Grainger, Chief Financial Officer, Ofsted

Use information intelligently *continued*

Further resources

- Our *Improving government data* good practice guide encourages decision makers to realise the benefits of better use of data by helping them understand in more detail the core issues that have held back progress in the past.
- Our *Digital transformation in government* good practice guide aims to support audit committees and senior leaders who are tasked with overseeing large-scale digital change.
- Our *Financial modelling in government* report reviewed the use and quality of assurance of financial models across government. The guidance *Framework to review models* built on the findings, conclusions and recommendations from the report to provide a structured approach for reviewing models that organisations can use to determine whether the modelling outputs they produce are reasonable, robust and have a minimal likelihood of errors being made.

Prioritise effectively

What good looks like

Finance leaders support decision makers to make difficult decisions and trade-offs to generate good value-for-money outcomes based on agreed priorities.

Why this is important

To prioritise resources effectively, an organisation must have clearly defined and measurable goals, strategic objectives and outcomes. In a context where funding is uncertain, and where resources are finite, being able to measure progress against outcomes helps decision makers prioritise how resources should be allocated. Our report *A planning and spending framework that enables long-term value for money* summarises the issues identified from our work around prioritisation which show "departments and government as a whole are not clearly prioritising spending and stopping poorer value activities, with sometimes an unwillingness to acknowledge affordability constraints".[10]

Our discussions with finance leaders indicated that a clear organisation-wide understanding of strategic objectives helps organisations prioritise and re-prioritise dynamically. They noted that there can be some tension where the organisation does not understand why decisions are made, and that clearly communicating the organisation's purpose and goals helps build a broader understanding of the strategic direction.

Decision makers need to be comfortable making trade-offs when it comes to allocating finite resources. Organisations that lack a shared understanding of, and commitment to, strategic objectives often struggle with intelligent decision making. In contrast, those with a clear sense of priorities can pivot quickly and adapt more easily to changing circumstances. Strong finance leaders have the knowledge and ability to see across the organisation and are well placed to foster good collaboration at the executive level where priorities are commonly understood and discussed. When there is collective buy-in at the executive level, it cascades throughout the organisation, enabling finance business partners to adopt a more holistic approach to their work. This alignment allows finance business partners to effectively communicate to budget holders how resources have been strategically allocated across different areas and, importantly, why these decisions will drive greater value and efficiency for the organisation as a whole.

For the resource allocation process to be effective, finance teams can help decision makers better understand the consequences of decisions and trade-offs. Often, organisations will need to make difficult decisions – such as to start or stop spending on specific projects or programmes as part of departments' ongoing re-prioritisation efforts. They will need to consider whether funding streams can be scaled up or down, restarted in future years, or if the value spent to date will be lost if funding is not continued. These decisions should be underpinned with a proper consideration of impact, risk and opportunity, so that trade-offs are evidence based and justifiable to the wider organisation.

10 Comptroller and Auditor General, *A planning and spending framework that enables long-term value for money*, HC 234, National Audit Office, October 2024, Figure 2.

Prioritise effectively *continued*

How finance leaders can address this

- **Work closely with senior leaders to identify trade-offs and establish the basis on which they are resolved.** Establishing the foundations of decision making is a notable feature of financial leadership as described in *Managing Public Money*, which outlines the importance of "[ensuring] the information on which decisions about the use of resources are based is reliable".[11] Finance leaders can assist decision makers in identifying and resolving trade-offs to achieve good value-for-money outcomes by working across the leadership team and applying prioritisation guidelines that are built from the organisation's strategy. This will enable objective resource allocation decisions and support the accounting officer in their governance, decision making and financial management responsibilities.

Practical tip: Work across the leadership team to establish a prioritisation framework that ranks allocation options against a range of quantitative and qualitative measures.

- **Gain organisational buy-in to decision making by being transparent about the basis on which allocation decisions have been made.** Decisions are based on a multitude of factors, some of which stray beyond financial information – service delivery limitations, legal and regulatory issues and sustainability and environmental impacts to name a few. The best way to secure collective buy-in across the organisation is for finance leaders to work with other senior leaders to demonstrate the rationale for resource allocation decisions and how they support the organisation's strategic priorities.

Practical tip: Publish the prioritisation framework internally to show the basis on which difficult allocation decisions are made.

- **Evaluate the success of previous prioritisation decisions to enable more intelligent decisions around trade-offs in future.** By identifying key learnings from past decisions and understanding the costs of action versus inaction, organisations can refine and validate their future decision-making processes. This approach is especially crucial for organisations that have struggled with effective prioritisation in the past.

Practical tip: Conduct an annual lessons learned exercise assessing the success of outcomes from previous prioritisation decisions.

11 HM Treasury, *Managing Public Money*, May 2023, page 96.

Prioritise effectively *continued*

Quote

"Organisations need to understand what they're delivering but they also need to understand what they're *not* delivering. Doing good horizon scanning, costing and prioritising plans means they will be in a stronger position to seize on and manage uncertainty."

Head of Corporate Finance, Ofgem

Further resources

- HM Treasury provide a range of guidance to support accounting officers. *Managing Public Money* sets out the main principles for dealing with resources in public sector organisations in the UK. *The Orange Book* outlines how effective risk management can support decision making. The *Risk Control Framework* makes it easier for accounting officers to navigate and gain comfort on the existing internal control requirements contained in the functional standards, codes of conduct and guidance they are expected to adhere to. *The Green Book* is HM Treasury's guidance on providing evidence-based decision support information for the optimum use of public resources.
- Our *Improving operational delivery in government* good practice guide identifies two areas for senior leaders to focus on to achieve a whole-system approach – one of which is aligning objectives, funding, governance and accountability.
- Our *Framework to review portfolios* sets out questions that can be used to assess whether a portfolio is set up to achieve value for money, and emphasises the importance of having a clear and consistent understanding of the portfolio's objectives alongside clear accountability to help align activities across the portfolio.
- We reported on how *Accounting officer assessments* can support accounting officers in making good decisions that align with Parliament's expectations for spending public money; and support the transparency and effective scrutiny of spending and decision-making by Parliament on behalf of taxpayers.

Case study

Background: The Office for Environmental Protection (OEP) was established under the Environment Act 2021. Its remit covers England and Northern Ireland, and its mission is to protect the environment by holding governments and other public bodies to account against their environmental commitments and ambitions. The OEP has implemented a number of steps to prioritise effectively and make the best use of its resources.

Approach: The OEP's finance and business strategy and planning teams collaborate to produce an agreed annual budget and corporate plan, supported by a detailed business plan, which is aligned with the strategy and priority themes and the Chief Executive's duties as accounting officer. Each year's detailed business plan is derived from a combination of business as usual, in-flight work, and options for new projects. When making judgements on what to prioritise, the OEP are guided by four questions:

1. How large an impact could the action have?
2. How likely is it that the OEP will have that impact?
3. What is the strategic fit?
4. What is the OEP's capacity and capability to deliver?

In-year emerging needs are managed through monthly budget and delivery reviews, at which reprioritisation decisions are made. Modelling and scenario planning are also conducted to prepare for alternative scenarios and varying funding levels. Resource allocation decisions are communicated to individuals across the OEP and the Board, and explained in terms that demonstrate their alignment with the OEP's strategy.

Benefit: The OEP takes a transparent and defined approach to resource allocation decisions, which facilitates objective and evidence-based decisions that are aligned with the OEP's strategy. This is to ensure that budget allocations maximise impact and resources are utilised in line with the OEP's strategy.

Build for the long term

What good looks like

Resource allocation decisions balance short-term pressures with long-term priorities and are aligned with the strategic objectives of the organisation to build resilience and preserve long-term value for money.

Why this is important

We established in our principle *Use information intelligently* that the environment under which government organisations operate is complex and uncertain. This, in combination with limited resources to allocate, means that leaders often need to make allocation decisions to address immediate priorities. When making allocation decisions, organisations should focus on short, medium and long term to ensure a balance is achieved between addressing immediate priorities and securing long-term value for money. At the same time, organisations should look beyond the borders of their own organisation to better understand risks and opportunities.

Asset maintenance is an example of an area where government often struggles to balance immediate priorities with building long-term sustainability. We have seen this issue in a number of our reports, ranging from the condition of school buildings[12] to backlogs in the criminal justice[13] and health systems[14] to ageing digital services.[15] In *Lessons learned: a planning and spending framework that enables long-term value for money* we noted, "Government's tendency is to give attention to short-term delivery and spending control at the expense of long-term objectives, major programmes and asset maintenance, which increases the risk of asset and service failure and feeds a cycle of firefighting".[16] Finance leaders can emphasise the importance of healthy capital allocations as a way of balancing shorter-term objectives with longer-term financial sustainability.

Beyond capital investment, finance leaders in our discussions highlighted a tendency for short-term mindsets in their organisations. This can result in resources not being allocated in a way that optimises longer-term projects and programmes and overall financial sustainability. For example, failing to do thorough workforce planning to fill skills gaps or vacancies when they are most needed may result in spending more on short-term consultancy options. Organisations may also not understand the long-term priorities well enough to make the right in-year allocation decisions. In our report *Government resilience: extreme weather* we note that it is difficult to make informed decisions about trade-offs between long- and short-term priorities, investment or funding allocation of priority areas where the outcomes are unclear.[17] The lesson here is relevant for individual organisations and explains why clarity over strategic objectives and long-term outcomes is so important.

Finance teams, in collaboration with relevant subject matter experts, play a crucial role in overcoming this challenge across government. Achieving a balance between the short- and long-term priorities and initiatives requires an objective understanding of the range of costs, benefits, risks and variability of outcomes associated with decisions across different timelines.

Finance leaders can evaluate and challenge resource allocation decisions made under short-term pressures to ensure they lead to better long-term outcomes. When outcomes are unclear, finance leaders should seek greater clarity. Scenario planning can be a helpful tool in creating more meaningful projections and evaluating potential outcomes, and ultimately lead to better decision making and improved long-term outcomes. Additionally, finance leaders should evaluate the outcomes of previous decisions and routinely advocate for spending decisions to be made with the organisation's risk appetite and strategic priorities in mind.

12 Comptroller and Auditor General, *Condition of school buildings*, Session 2022-23, HC 1516, National Audit Office, June 2023.

13 Comptroller and Auditor General, *Reducing the backlog in the Crown Court*, Session 2023-24, HC 728, National Audit Office May 2024.

14 Comptroller and Auditor General, *Progress with the New Hospital Programme*, Session 2022-23, HC 1662, National Audit Office July 2023.

15 Comptroller and Auditor General, *Modernising ageing digital services*, Session 2022-23, HC 948, National Audit Office, December 2022.

16 Comptroller and Auditor General, *Lessons learned: a planning and spending framework that enables long-term value for money*, Session 2024-25, HC 234, National Audit Office, October 2024, Figure 2.

17 Comptroller and Auditor General, *Government resilience: extreme weather*, Session 2024-25, HC 314, National Audit Office, December 2023, Paragraph 10.

Build for the long term *continued*

How finance leaders can address this

- **Encourage better scenario planning to give a more realistic and risk-based view of future costs.** Finance teams need to be able to understand the full costs and long-term implications of their decisions and consider future risks and opportunities associated with those decisions. Working closely with the risk management function to develop scenario planning that considers a range of outcomes over extended periods of time will allow finance teams to help decision makers explore both medium- and long-term impacts, in addition to factors from beyond their own organisation.

Practical tip: When considering different scenarios, highlight areas of relative certainty differently from areas of relative uncertainty. This will enable the riskier areas to be focused on in greater detail in future.

- **Ensure that longer-term assets and liabilities are given sufficient attention.** Leaders need to ensure that preparing the organisation for the long term is not overlooked when making allocation decisions. Allocation decisions should factor in long-term commitments – for example, the impact of liabilities crystallising, lease-term renewals on properties, and the condition of assets held and the consequences if they fail.

Practical tip: Have an up-to-date plan for holding, maintaining and investing in assets, that reflects the department's objectives.[18]

- **Advocate that capital budgets are prioritised to support investment in areas that will improve long-term sustainability and resilience.** Allocating resources in a way that improves resilience shows foresight and will protect long-term value for money. Finance leaders should prioritise long-term investments while effectively managing short-term priorities. This approach ensures that the organisation remains agile and responsive to current demands, while also building a strong foundation for future growth, sustainability and resilience. Leaders who understand and anticipate future requirements, such as environmental sustainability, can guide spending decisions that future-proof the organisation.

Practical tip: Develop a key performance indicator around long-term sustainability and building resilience.

18 Comptroller and Auditor General, *Making public money work harder: Learning from recent NAO work*, Session 2024-25, HC 572, National Audit Office, July 2024, Page 11.

Build for the long term *continued*

Quote

"Where an organisation has a short-term mindset, budget holders, managers and directors can themselves become very short-term focused. To help turn this around, we need to have clear forward statements and properly understand the impact of the long-term commitments that we have already made."

Alison Hunt, Deputy Director of Central Financial Management, NHS England

Further resources

- Our *Making public money work harder* insight piece explains how taking a sustainable approach to planning and spending is a key enabler of better productivity across government.
- Our *Lessons learned: a planning and spending framework that enables long-term value for money* report emphasised the need for longer-term planning in government and set out examples of the absence of some long-term plans across government.
- Our *Delivering value from government investment in major projects* lessons learned report sets out observations and lessons for how projects can achieve value for citizens, service users and the environment.
- The Risk Centre of Excellence, within the Government Finance Function, has produced a number of *tools* for sharing best practice across government, including a *risk scenario planning toolkit* which can be used to provide a structured approach to help prepare for different possible risk outcomes.

Case study

Background: English Heritage were identified as an example of good practice in the NAO's *Good practice in annual reporting guide* in recognition of how they set out performance and targets against strategic objectives.

Approach: English Heritage have a range of Key Performance Indicators, one of which is financial sustainability. This is supported by a number of indicators that English Heritage uses to judge whether they will generate sufficient income to fulfil their charitable purpose over the long term.

In their *2023/24 annual report*, English Heritage say, "*Our overriding focus in 2024/25 will continue to be to preserve cash in order to build resilience in an uncertain economic environment balanced with the need to continue to invest in our sites, technology, conservation, maintenance, equity diversity and inclusion, and environmental initiatives, and to allocate resources to our new vision and strategic objectives.*"[19]

Benefit: English Heritage set out a public vision in how resources should be allocated to support their strategic objectives and build greater resilience, while at the same time balancing short-term pressures.

19 English Heritage, *Annual Report 2023/24*, page 28.

Methodology appendix

We have used the following methods to generate our insights:

a We conducted five focus groups and one semi-structured interview with senior finance leaders from a range of our audited bodies. In one instance, we included more than one representative from the same organisation.

We met with Heads of Finance, Finance Directors, Chief Financial Officers, a Finance Controller, Finance Business Partners, and other finance professionals from:

- six ministerial departments;
- five non-ministerial departments;
- two non-departmental public bodies;
- two executive agencies; and
- one independent agency.

We included organisations of different sizes and complexity and participants from a range of senior finance roles, to capture a diversity of perspectives. The findings from the focus groups and interview were used to inform our themes and identify examples of good practice. Our focus groups and interview were carried out between July and August 2024.

We chose to use focus groups to capture a range of perspectives from finance leaders across government and give participants the opportunity to present their views and experiences while listening and reflecting on what the others had to say. This helped us to collect insightful data on the main challenges for allocating resources effectively and ways to address these challenges.

b For the focus groups and the interviews, we organised the notes in an Excel matrix, against the themes identified in our review of past NAO reports. We used this analysis to refine, test and supplement our findings and to identify and examine examples to illustrate them.

c We interviewed officials from private sector accountancy firms to discuss and gain their perspectives on the themes we had identified.

d We held an expert panel discussion with senior officials from academia, a professional body and one of the private sector consultancies to discuss our findings, test our themes and hear their views on strengthening resource allocation for effective financial management.

e We shared and discussed our findings with officials from the Government Finance Function, a cross-government forum of senior finance leaders, and other interested organisations across the public sector.

f We interviewed a member of the NAO's finance team to understand the NAO's approach to allocating resources and representatives from NAO's insights teams to discuss their perspectives based on their specialist areas.

g We reviewed our back catalogue of value-for-money reports, investigations and good practice guides. We used this information to identify our key themes, the main challenges for finance teams across government in allocating resources effectively and actions that leaders can take to tackle these challenges.

h We conducted external research on allocating resources and its importance for financial management. This constituted desktop research of financial management materials and documentation from central government and the private sector, and discussions with organisations from beyond central government to deepen our understanding of the current challenges for effective resource allocation.