



National Audit Office

National Audit Office

NAO Strategy 2014-15 to 2016-17

NOVEMBER 2013

Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Amyas Morse, is an Officer of the House of Commons and leads the NAO, which employs some 860 staff. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of almost £1.2 billion in 2012.

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Foreword

1 The public sector continues to face financial constraints, placing pressure on its ability to fund and provide high-quality services. The scale of these constraints means that the civil service has no option but to think radically about how to provide public services at permanently lower cost. Changes to public service provision introduce opportunities and risks to value for money. There remains an enduring need for strong accountability to Parliament for how bodies use public funds, underpinned by a strong audit institution.

2 We continue to demonstrate our value through the high quality of our work with parliamentary select committees, particularly the Committee of Public Accounts (PAC). For example, we recently worked with them on important issues like the prompt assurance to Parliament on the decision to cancel the InterCity West Coast franchise competition and our early analysis of the implementation of Universal Credit.

3 Our vision is to help the nation spend wisely. This is underpinned by our three strategic objectives – to develop and apply our knowledge; increase our influence; and deliver high performance. These objectives continue to form the core of our strategy. However, we will transform, from a position of strength, how we deliver our strategy, to ensure our products are responsive, targeted and relevant.

4 Our strategy sets out why and how we are reshaping the NAO and we welcome the contribution made by the Public Accounts Commission to its development. Our core strengths in financial and value-for-money audit will remain our bedrock. We will realign our operations to match the strategic issues that departments face. We will ensure that our work remains relevant to Parliament and the bodies we audit by drawing on our strength in comparative analysis. We are taking on new responsibilities for local government work and are increasing our investigative and early intervention work. We will produce a wider range of products for different audiences, allowing us to respond quickly to complex, fast-moving public sector issues.

5 Our staff are vital to achieving our strategy. We are introducing a new approach to developing our skills, so we have the right mix of skills and experience to address key strategic issues in the public sector. As a public body, we are committed to practising what we preach and are on track to meet our own cost savings target.

6 The next few years will be demanding. The delivery of public services is likely to be subject to increased scrutiny in the run up to the next general election and this is likely to raise the profile of our work. By transforming our operations, drawing on our strengths and developing new capabilities, we will be well placed to support public service improvement and continue to give Parliament effective assurance.

Amyas C E Morse
Comptroller and Auditor General

Professor Sir Andrew Likierman
Chairman

Part One

Our environment

The public sector faces continuing austerity. The low-hanging fruit is long gone, so reduced funding is driving change in how local and national government are organised, and how services are delivered. Skills in strategic planning and change management will be at a premium. The NAO will help Parliament assess whether these skills are present and effectively deployed within government, and how well change is managed and controlled.

Austerity

1.1 The pace of economic recovery means that the government has extended fiscal consolidation further than originally planned in the 2010 spending review. While there are now signs of recovery, output remains well below its pre-recession level in 2008. The government has forecast continued reductions in departmental spending to 2017-18, signalling further cuts into the next Parliament.

1.2 The government needs to drive through sustained changes in services and ways of working, with the public sector having to rethink fundamentally how it operates. Departments and other public bodies have made savings but some savings are more sustainable than others. Short-term 'tactical' savings will not be enough to address the scale of consolidation. Our recent report on financial management¹ found that public bodies are having to improve how they integrate planning and strategic financial management in order to respond successfully to financial and other pressures.

Reform

1.3 The government is continuing with its ambitious programme of public sector reform, including:

- opening up public service provision to private and third-sector suppliers;
- significant changes to the delivery of major government services, such as health, welfare, and defence;

¹ Comptroller and Auditor General, *Financial management in government*, Session 2013-14, HC 131, National Audit Office, June 2013.

- automating many transactional services through digital channels;
- focusing on service quality and user experience; and
- shared services and standardisation.

1.4 These reforms are being introduced at pace, often using innovative approaches. Innovation brings opportunities and risk, both of which must be well understood and carefully managed to maximise the chances of success. Public bodies have a mixed record when implementing major reforms and to help address this, we increasingly take an early view of significant reforms to see whether risks have been clearly identified and well managed during initial project stages. This helps reduce the likelihood that poor planning will escalate into more substantial failures.

1.5 Reforming public services will impact on the user experience and government has reiterated the importance of users in service design. Where appropriate, we will focus on the impact of reform on users, including addressing variations in user experience and service quality across public services.

Capability

1.6 Austerity and reform are stretching the civil service to manage extensive change and provide high quality public services with fewer resources. The civil service is having to radically change how it operates, developing skills both in areas where it has traditionally been weak, such as financial management, and in emerging areas, such as digital transformation.

1.7 There is an increasing emphasis on implementation, requiring greater knowledge and experience in project and programme management, commercial skills such as commissioning and regulation, and the ability to think across traditional organisational boundaries. Using the private sector more will also mean addressing potential imbalances of knowledge and skills between civil servants and contractors.

1.8 Departments' focus on implementation is hampered by their poor use of management information. Without robust information, departments cannot effectively track provision, and change course where necessary, to ensure value for money. The civil service needs to improve how it uses information to understand financial and service performance and the staff skills it requires.

Local delivery

1.9 Local bodies face decreases in funding and must provide more for less, while demand for many local services continues to increase. While local authorities and NHS trusts have generally absorbed reductions in central funding, there are examples of service reductions. The pressure between funding and demand creates risks for the volume and quality of services provided and long-term financial sustainability.

1.10 Reforms have led to significant changes in accountability and funding arrangements for many local public services, and additional responsibilities for local bodies. These reforms include institutional changes such as forming the NHS Commissioning Board and introducing elected police and crime commissioners. Significant reductions in central government funding for local government and police services have been accompanied by funding reforms for most local public services. This has implications for allocating central funding to local bodies.

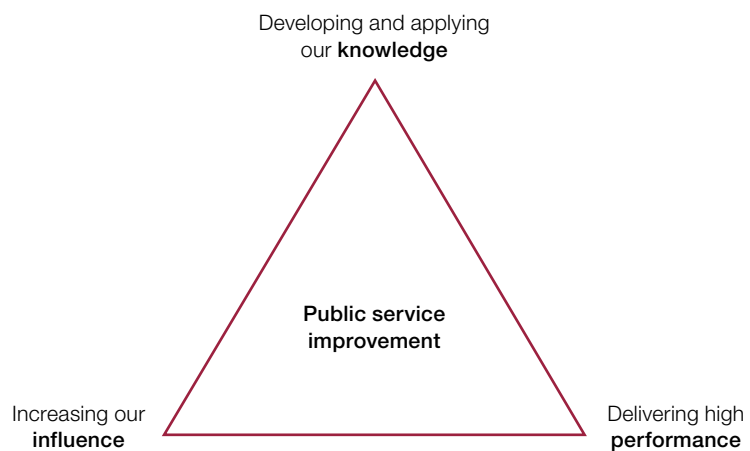
1.11 With our support, the Committee of Public Accounts will continue to play a key role in leading the debate on accountability arrangements for local public services. Accounting officers remain accountable for funds under their control, including where they are devolved to other public, private or third-sector organisations. Parliament will also seek assurance over system-wide value for money where decision-making and service provision are devolved.

Part Two

Progress with our strategy

Our vision is to help the nation spend wisely. Our public audit perspective helps Parliament hold government to account and improve public services. Over the past three years, we have continued to develop our knowledge and expertise and raise our profile, directly increasing our influence with stakeholders. At the same time, we have continued to reduce our costs. **Figure 1** outlines our strategic objectives. These remain highly relevant to the issues described in Part One.

Figure 1
Our strategic objectives



Developing and applying our knowledge

2.1 Meeting our statutory responsibilities for Parliament gives us considerable insights into good practice and barriers to better performance. Combined with our expertise, we use this knowledge to support departments and the public sector to improve service provision and performance.

2.2 We have strengthened how we develop and apply our knowledge, for example by:

- deepening our understanding of the bodies we audit to increase our insight;
- increasing our focus on the strategic issues shared across public bodies; and
- investing in technology to enable improved knowledge sharing and collaborative working.

2.3 We combine our knowledge and insight with detailed expertise in areas such as financial management and value-for-money audit. We recognise that we need to further develop our knowledge and insight to focus on the key risks driving systemic poor performance in government and respond more quickly to stakeholder needs. For instance, we recently published a review of early programme preparation for High Speed 2.² Part Three outlines how we will be transforming our approach to developing and applying our knowledge to the core strategic challenges the government faces.

Increasing our influence

2.4 We use our public sector knowledge and experience to help make financial savings and improve public services, and to help Parliament hold the government to account. Our visibility and the profile of our work have increased, strengthening our ability to influence our stakeholders. We do this in several ways.

Our work leads to financial impacts:

- In 2012, our work helped the government make nearly £1.2 billion in savings, our highest ever figure. For example, our report into excess inventory levels at the Ministry of Defence led to savings of more than £250 million.³

² Comptroller and Auditor General, *High Speed 2: A review of early programme preparation*, Session 2013-14, HC 124, National Audit Office, May 2013.

³ Comptroller and Auditor General, *Managing the defence inventory*, Session 2012-13, HC 190, June 2012.

We contribute to wider public service improvement:

- We continue to influence improvements in public services. For example, in 2012, we recommended that the Department for Business, Innovation & Skills could get better value for money by targeting its spending on the adult apprenticeships programme on sectors that produce the most economic benefit. In addition, the government acknowledged the value of our financial management work when it announced its current review of financial management across government. We interview senior civil servants at the bodies we audit and the chairs of their audit committees. The proportion saying that our recommendations helped to improve efficiency and effectiveness has increased to nearly two-thirds.

We support the Committee of Public Accounts:

- We work closely with the Committee of Public Accounts to support its examinations of value for money across public services. We recently worked with the Committee to examine charges for the public, through customer telephone lines. This led to the Cabinet Office making a clear policy to ensure coherence, and the introduction of cheaper telephone numbers for the public. In 2012-13, government bodies accepted 82 per cent of the Committee of Public Accounts' recommendations.

We provide wider support to Parliament:

- Our parliamentary relations team works closely with other parliamentary committees in addition to its work for the Committee of Public Accounts. For example, we recently briefed the Environmental Audit Committee on sustainability reporting in government and wrote a memorandum to the Science and Technology Committee on research and development funding for science and technology. We give Parliamentarians annual guides to our work on the 17 main government departments. We increasingly inform public debate on key government issues. An independent annual survey of members of parliament shows that they hold us in high regard and our work is often cited in Parliament.

2.5 We have introduced a clear engagement strategy to ensure our work continues to have maximum impact with Parliamentarians and other key stakeholders. We will continue to refine our communications approach; targeting our work at those with interests in the sector and strategic issues we examine to increase the timeliness and relevance of our recommendations.

Delivering high performance

2.6 The bodies we audit must have confidence in our judgements and see that we practise what we preach. We are committed to continuing to reduce our costs where it does not impact on our ability to do our work, make the best use of our assets and improve our efficiency. We measure our financial performance through cost savings and the proportion of resources dedicated to front-line functions. We are on track to reduce the costs of our existing work by 15 per cent (20 per cent in real terms) over the three years to 2013-14.

2.7 We continue to increase our efficiency. We have reconfigured our London office space, renting out excess space to tenants, and focused more than 80 per cent of our resources on front-line activity. We have increased the number of accounts certified within four months of financial year-end and now finish a higher proportion of our value-for-money reports within three and six months. We now deliver a broader range of outputs to best meet the needs of different stakeholders in the most efficient way. Part Four describes how we will reduce our cost base further.

2.8 We have launched our transformation programme to help us address the strategic issues facing public bodies, achieve our vision of helping the nation to spend wisely and meet the needs of a more demanding parliamentary audience. Our core financial audit and value-for-money work for Parliament will not change. The way in which we provide them will be enhanced. Transformation forms the basis of our strategy for the next three years and is described in more detail in Part Three.

Part Three

How we will deliver our work

Our three strategic objectives continue to guide how we will achieve our vision. Our wider operating context is changing and government faces significant challenges delivering high-quality public services during an extended period of austerity. We will change how we work so we can address the key strategic issues that government faces, which have the most impact on value for money. However, our core strengths in financial and value-for-money audit will remain the bedrock of what we do.

3.1 Our transformation programme will further strengthen the delivery and impact of our work programme and wider strategy by increasing our influence, reducing our costs and giving Parliament greater insights to improve accountability.

Transformation

3.2 The programme will change how we will work in four ways. It will:

- **Provide a clearer focus on shared strategic issues** across departments and public bodies that are likely to have the greatest impact on long-term performance.
- **Integrate our assurance to Parliament**, to bring together our audit expertise across different areas. This will provide a more proportionate, risk-based programme of work, supported by a wider range of assurance products.
- **Improve our investigative capability**, to examine service quality, financial probity and service failure risks in the delivery of devolved services. This will also test the adequacy of accountability frameworks where delivery through private, third party and devolved public sector providers can introduce new risks.
- **Increase our skills and expertise in key areas**, so that we continue to be recognised as a leading authority on key strategic issues that the government faces.

Shared strategic issues

3.3 All public service providers face common issues, such as having to improve financial management and how they use information. In addition, bodies operating in a similar context share strategic issues specific to that environment. These issues are likely to have a significant impact on the public sector’s long-term performance. For example, the performance of departments such as the Ministry of Defence, Department for Transport and Department of Energy & Climate Change will be determined largely by whether they can implement large-scale programmes and projects.

3.4 Identifying and focusing on these shared strategic issues is integral to our new approach. Many aspects of poor performance can be traced to these issues, and mistakes are often repeated. We can better compare how these issues are being addressed by benchmarking similar activity across departments and sharing lessons learned from both good practice and failure. This allows us to draw on deeper insight, respond quickly to emerging issues, highlight how to make improvements and ensure that our recommendations are as relevant as possible to our clients.

3.5 **Figure 2** lists the strategic issues we have identified:

Figure 2

Strategic issues

Business area	Departments	Strategic issues
Major programmes and projects	Defence Transport Energy & Climate Change	Improving the effective delivery of major programmes and projects
Mass market services	Work & Pensions HM Revenue & Customs	Improving the accuracy and effectiveness of high-volume services to the public
Effective centre of government	Cabinet Office HM Treasury	Securing an effective centre of government that facilitates the best use of public money
Influencing and regulating	Business, Innovation & Skills Environment, Food & Rural Affairs Foreign & Commonwealth Office International Development	Strengthening influence and regulation to make markets work effectively
Delivery through networks	Education Justice Home Office Culture, Media & Sport	Maintaining effective delivery networks for a diverse range of users
Local service delivery and user experience	Health Communities and Local Government	Maintaining effective local services under financial constraint

Integrated assurance

3.6 The challenges and risks in providing public services are more complex than ever before. We require specialist knowledge, in addition to our audit expertise, to understand these risks and assess how the government is addressing them. Therefore, our financial audits and reports will now form part of a wider integrated assurance approach involving a more proportionate and risk-based approach and an extensive range of outputs and products. These products will be tailored more appropriately for Parliament and other stakeholder needs.

3.7 Our integrated assurance approach will have the following characteristics:

- We will use the **insight** from our growing understanding of the bodies we audit. We will provide relevant, actionable recommendations that lead to changes that save public money and improve public services. Integrated assurance will significantly increase our knowledge on the issues that matter.
- We will be more **responsive**, reacting rapidly to emerging issues and stakeholder requests, and giving assurance earlier in the life cycle of a project or programme. We can then report quickly to identify initial risks and bodies can address them before they become significant value-for-money failures. For example, we reported early in the development of the High Speed 2 project.
- We will have a more **sustained focus on key risks to government**, by providing broad-based diagnoses and then doing more detailed work where the risk is greatest.

Investigative capability

3.8 Public services are increasingly provided by private and third-sector bodies. Some of these delivery models use new and innovative approaches. While these can have significant benefits, they can introduce new risks for service quality, financial probity and potential service failure.

3.9 Various stakeholders help us to decide what to investigate. Increasingly, the public and members of parliament raise concerns through correspondence and whistleblowing activities. We also analyse financial and performance data to identify potential risks.

3.10 We are committed to enhancing our investigative abilities to address these concerns. To address risks, we will increase the amount we allocate to investigations from £2.5 million to £3 million, and further develop our skills. This will allow us to examine suspected and identified weaknesses in controls or malpractice where public funds may have been misused.

3.11 Our first risk-based investigation was *Confidentiality Clauses and Special Severance Payments*.⁴ The report focused on how the public sector uses compromise agreements when terminating employment contracts, and whether they are being used to ‘gag’ staff, or to cover up individual or organisational failure. The Committee of Public Accounts welcomed the new investigative approach and held a hearing in which HM Treasury agreed to respond to our findings, and return to the Committee with proposals for change.

3.12 As we increase our investigative work, we do not currently have consistent access rights to all bodies providing public services. We welcome the greater access to local bodies that we expect from the passage of the Local Audit and Accountability Bill.⁵ However, our access rights elsewhere remain unclear, for example in some situations where services are provided under contract.

Increasing our skills in key areas

3.13 Our financial audit and value-for-money assurance form the core of our organisation and we will continue to invest in these skills. In addition, all staff must have deep sector knowledge and insight of the bodies they audit and the communications skills to influence clients and other stakeholders.

3.14 To be best placed to address departments’ key strategic issues, we will supplement our core skills and knowledge by developing our expertise in these areas. Our staff will have credibility to influence the debate about cost-effective public services. We continue to refine our approach to developing expertise on strategic issues, but the approach is likely to include areas such as commercial skills and commissioning, data analytics, programme and project management, digital service provision, group corporate finance and local service provision.

3.15 We will use external experts in areas where we do not need to develop and sustain deep internal expertise. This will ensure that, regardless of the issues that government faces, we are well placed to quickly give Parliament independent, authoritative and timely insight. We will also improve our use of secondments, ensuring staff have the opportunity to develop their skills in other organisations and bring that knowledge and experience back to the NAO.

⁴ Comptroller and Auditor General, *Confidentiality Clauses and Special Severance Payments*, Session 2013-14, HC 130, National Audit Office, June 2013.

⁵ House of Lords, *Local Audit and Accountability Bill*, 2013-14.

Local audit and accountability

3.16 In 2010, the government announced that it would abolish the Audit Commission. We will become responsible for preparing and maintaining the code of audit practice. We will also examine the impact of government policies administered by local bodies and identifying and reporting on wider issues as part of our programme of value-for-money studies. The Local Audit and Accountability Bill that will establish a statutory responsibility for these functions is expected to receive royal assent in early 2014.

3.17 We have developed our work on local services. In 2012-13, Parliament gave us additional resources to produce four value-for-money reports focusing on local government issues and central government oversight. We have begun to identify themes from our work, including:

- the need for better communication between central and local government when policies are designed and implemented;
- the need for central government to improve how it works across departmental boundaries to understand the overall impact of its policies locally;
- the potential from using an integrated approach through the Whole Place Community Budgets initiative; and
- underpinning all of these, the challenge of maintaining services with less resources.

3.18 In 2014-15, we will increase our number of local government studies and thereafter publish six per year, while also expanding our work on foundation trusts. Building on our experience, we anticipate investing greater resource in these studies. We will develop and analyse the data to draw strong evidence-based conclusions on sector-wide issues.

3.19 Our increased involvement in local services has been accompanied by more correspondence to us and the Committee of Public Accounts about local bodies. This correspondence gives valuable insights into local issues and helps inform our plans for investigative work.

3.20 We have made significant progress in developing relationships with local government. Our independence, and our ability to span central and local sectors, is valued. We will continue to build these relationships, and we are also working closely with the Audit Commission to take on the role of preparing the code of audit practice that will set out standards for the audit of local bodies.

Part Four

Our resources, people and performance

As a public body, we are subject to the same financial pressures as our clients. We are on track to cut our costs by 15 per cent, as agreed for existing work, for the three years to 2013-14. We will work to cut these costs by a further 5 per cent in 2014-15, mostly from the £2.5 million annual savings we expect from our transformation programme. We continue to build our capacity to take on new responsibilities. We estimate that the resource needed in 2014-15 to carry out our work on local services and reforms to the financial regulatory system will be £3.5 million.

4.1 This part of our strategy sets out:

- the progress we have made on reducing our costs;
- the resources we need for the three years from 2014-15 to 2016-17;
- how we will develop our people and our skills; and
- how we will report our performance to Parliament.

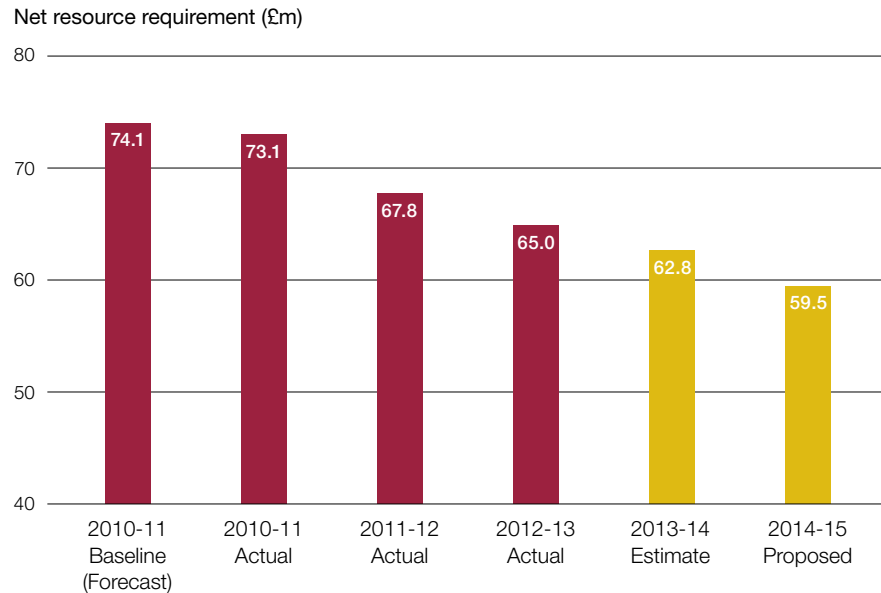
Progress on reducing our costs

4.2 In 2010, the Public Accounts Commission endorsed our target to reduce our resource voted by Parliament by 15 per cent for existing work by 2013-14. **Figure 3** shows that, from our 2010-11 baseline of £74.1 million, we remain on track to meet our 15 per cent reduction target by the end of 2013-14, a 20 per cent reduction in real terms (after adjusting for the effects of inflation).⁶ We have made these savings through structural changes and operational efficiencies, and will reduce the cost of our existing work by a further 5 per cent (7 per cent in real terms) in 2014-15.

4.3 We continue to reduce the average cost of our value-for-money reports. In 2012-13, the average cost was £197,000, below our target of £218,000, and 72 per cent were delivered within nine months, above our target of 70 per cent. We have also increased our financial audit efficiency by introducing new audit software, which streamlines documentation and review processes.

⁶ Real terms figures are adjusted to account for the effect of inflation over time, to illustrate what our savings would have been if there had been no inflation since 2010-11.

Figure 3
Progress in reducing our costs



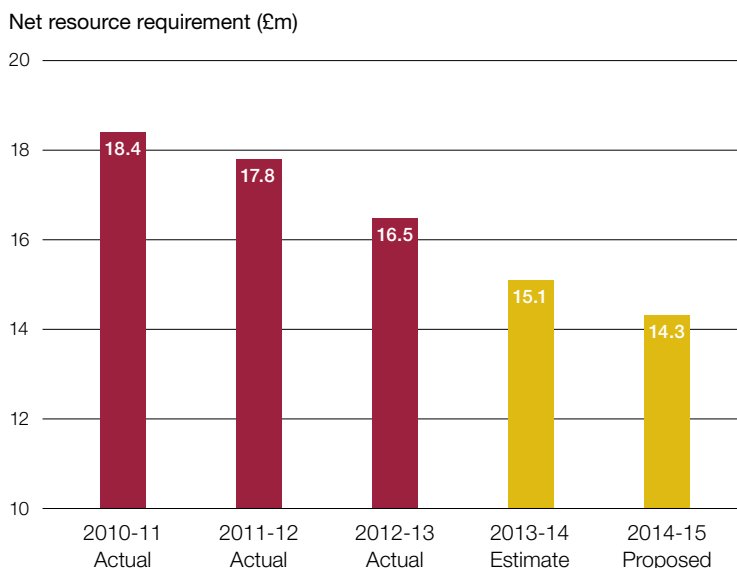
Note

1 Fifteen per cent reduction in our net resource requirement was based on our forecast as at October 2010, which was £74.1 million. This excludes all new work agreed with Parliament for 2013-14.

4.4 In 2008, we set out our plan to increase the efficiency of our corporate support services, such as human resources and finance, and have made significant progress in reducing our costs. For instance, we have reorganised our office space and are renting out surplus areas to tenants. We are reviewing our corporate support functions, aiming to devolve responsibilities and embed some functions in front-line teams. **Figure 4** overleaf shows that, by the end of 2013-14, our net corporate overhead costs will have fallen by £3.3 million (18 per cent) from 2010-11, representing a real-terms reduction of 23 per cent. We plan further efficiencies in 2014-15 of 5 per cent (7 per cent in real terms) in our corporate overheads costs, by flattening our management structure and making on-going efficiencies in our support services.

Figure 4

Corporate overhead costs, 2010-11 to 2014-15



Resources needed from 2014-15 to 2016-17

4.5 For 2014-15, we are confident of the resource needs we will request from Parliament for approval in our Estimate in March 2014. The figures for future years are indicative at this stage.

4.6 For 2014-15, we will request £63.0 million of net resources. This request will cover all of our work, including new responsibilities around local services and reforms to the financial regulatory system. A breakdown of our resource requirement is set out in **Figure 5**.

4.7 Total net resources for our existing work will reduce by 5 per cent (7 per cent in real terms) to £59.5 million in 2014-15. To discharge our on-going statutory functions on behalf of Parliament, the NAO relies on a professionally qualified workforce. Our detailed analysis shows that any further reductions in our resources for existing work for 2015-16 and 2016-17 would impact on our ability to maintain this capability, and our current level of service to Parliament.

4.8 Our resources for all our work, including our new responsibilities will reduce by 4 per cent to £63.0 million in 2014-15 (6 per cent in real terms). Increases in 2015-16 and 2016-17 are necessary to meet our additional activity in these new sectors (see paragraphs 4.10 to 4.13).

How will we use these resources

4.9 Figure 6 shows how we will use these resources. We have revised the definition of our core work streams to better reflect the range of outputs and assurance work we will deliver following the greater integration of our teams under transformation. Further details on what type of costs make up this expenditure is included in Appendix One.

Figure 5

Net resource requirements, including new work

	2012-13 Outturn (£m)	2013-14 Estimate (£m)	2014-15 Proposed (£m)	2015-16 Proposed (£m)	2016-17 Proposed (£m)
Existing work	65.0	62.8	59.5	59.5	59.5
New work	2.5	3.0	3.5	5.0	5.0
Total net resource requirements	67.5	65.8	63.0	64.5	64.5

Note

1 Subject to the successful passage of the Local Audit and Accountability Bill, we anticipate consolidating our funding from 2015-16 onwards.

Figure 6

Net resources shown by type of work

	2013-14 Estimate (£m)	2014-15 Proposed (£m)	2015-16 Assumption (£m)	2016-17 Assumption (£m)
Audit and assurance	47.2	47.7	47.7	46.3
Value for money	17.1	18.0	18.5	18.5
Investigations and enquiry ¹	12.9	9.1	10.1	10.1
Support for Parliament	6.1	5.6	5.6	5.6
International relations	2.0	1.9	1.7	1.5
Comptroller function	0.2	0.2	0.2	0.2
Gross resource requirement	85.5	82.5	83.8	82.2
Income	(19.7)	(19.5)	(19.3)	(17.7)
Net resource requirement	65.8	63.0	64.5	64.5

Note

1 This was previously called Insight and Investigations and included other activities. In future, we will focus work in this area on investigations, responding to enquiries and data driven analysis. On a comparable basis the 2013-14 Estimate would be £9.2 million.

New responsibilities

4.10 In 2012-13, the Public Accounts Commission gave us additional resources to support new work resulting from changes such as abolishing the Audit Commission. We have developed our capacity to investigate issues across local bodies and will continue to build this area of our work to take on new responsibilities, as set out in the Local Audit and Accountability Bill.

4.11 During 2014-15, we propose that the net resources needed for our local work and our new responsibilities for auditing the bodies in the new regulatory framework for financial services should be £3.5 million. In 2015-16 and 2016-17, the amount needed for this work increases to £5.0 million.

4.12 These increases reflect the need for:

- up to ten additional staff in 2015-16 to provide support, guidance and information to local auditors (around £1.0 million in 2015-16 and 2016-17);
- developing our capacity to respond quickly to any indication of systemic failure or weakness (around £0.5 million set aside in 2014-15, increasing to £1.0 million in subsequent years);
- our commitment to deliver eight value-for-money studies each year (six in local services and two on foundation trusts). These studies will involve more comprehensive sector-wide information, once the Local Audit and Accountability Bill currently before Parliament will give us statutory access to local authorities' information (around £2.5 million per year); and
- building stakeholder engagement and dealing with increases in correspondence on local issues (around £0.5 million per year).

4.13 We have committed to account separately for the funds Parliament provide for this work until future local audit plans become clear. The bill is expected to receive royal assent during 2014. We will consolidate our funding when we assume our new statutory duties.

Our people

4.14 Our people are vital to achieving our vision. We are committed to developing staff so we have the right mix of skills, insight and expertise, and so we are seen as an attractive place to work.

Staff numbers

4.15 Our total number of full-time equivalent staff will decrease from approximately 840 in 2013-14 to 810 in 2014-15, including reducing the number of directors and senior managers by 12 full-time equivalents. Our total net reduction in staff numbers will lead to an annual reduction in pay costs of £2.5 million.

4.16 A vital source of talent is our graduate and school-leaver recruitment programmes. These are aimed at attracting high-quality applicants to attain the professional qualification from the Institute of Chartered Accountants in England and Wales. These continue to be successful and we have filled all vacancies for our 2013 intake. During 2013-14, we will review our approach to ensure our programmes remain aligned with the culture and values of our business after the transformation.

Skills

4.17 Our skills strategy aims to deepen the operational knowledge of existing staff and secure deep expertise through external recruitment. We are focusing on enhancing our skills in such areas as digital service provision, programme and project management, commercial and contracting, group corporate finance, data analytics and local service provision. Further information on our skills strategy can be found in paragraphs 3.13 to 3.15.

4.18 We manage the progression of talent through our organisation carefully, setting targets for retention at post-qualified and more senior levels. We monitor performance monthly and turnover at these levels remains below target. Our talent management programmes will continue to complement staff skills and experience with developing leadership capacity.

Pay

4.19 We want to attract and retain high-quality staff and seek to offer a competitive package while also reflecting public sector financial constraints. We will continue to review our pay and benefits package to ensure that staff are rewarded appropriately and we remain an attractive employer in a recovering jobs market.

Staff engagement and well-being

4.20 The views of our people are important to us. To remain a responsive and engaged employer, we will continue to seek staff feedback through our annual staff survey, open forums and performance management framework. We will focus on building levels of staff engagement following a period of significant change.

4.21 We want to give junior staff greater challenges and responsibility earlier in their careers. Our emphasis is on using skills more effectively, to support our diverse product range. Our new appraisal system is designed to provide regular feedback between managers and staff to encourage continuous improvement and address areas for improvement.

4.22 We are committed to supporting staff health and well-being. We have low sickness absence rates, and run a series of well-being events and initiatives to help staff with a range of lifestyle and work areas. These initiatives help raise awareness of the business and personal benefits of a healthy workforce. We ensure that line managers, and the organisation as a whole, support staff with any health and well-being issues.

Diversity

4.23 To achieve our strategy, we need high performing staff, from as diverse and wide a talent pool as possible. Our goal is to be considered an inclusive and fair employer that celebrates and draws on the strengths of the diversity in its staff. Our diversity strategy is designed to attract, develop and promote the best talent by removing any real or perceived barriers to progression. We are increasing the representation of ethnic minorities and women in our more senior grades. We are also engaging with staff through an active diversity communications programme, proactively managing our talent pipeline, introducing unconscious bias training and launching a new appraisal scheme.

Our performance

4.24 As we develop our vision of the impact we want to make and transform how we work, we are also refining how we measure and monitor our performance. Our new corporate performance framework will simplify and align corporate performance reporting. It will focus on the extent to which we achieve financial and wider impacts, our corporate efficiency and how far we can influence improvement in the shared strategic issues that we identify in Figure 2.

4.25 In keeping with the principles of good performance measurement, our new framework clearly shows how our activities, ways of working and influence can be expected to achieve these outcomes. The framework that we will introduce in 2014-15 is based on the following components.

Expanding our range of outputs:

- Our framework will include output measures based on the products we produce for our various strands of work, including financial audit, value-for-money studies, investigative work and other assurance. It also includes restructuring our corporate services to support our new range of outputs.

Developing and applying our knowledge in different ways:

- This will comprise measures on the recommendations we provide to use public money better, how we inform Parliament and the public, how proactively we communicate, staff engagement and collaboration and knowledge sharing.

Increasing our influence with our stakeholders:

- This will include measures on the perceptions of Parliamentarians and bodies we work with and how far we are considered to be experts and focused on relevant issues.

Driving positive outcomes through our work:

- This will include measures of our influence on the shared strategic issues described in Figure 2, alongside our long-standing measures of financial impacts, wider impacts, acceptance and implementation of our recommendations, and our overall financial position.

Appendix One

Our resource requirements

Figure 7

Net resources shown by type of expenditure

	2013-14 Estimate (£m)	2014-15 Proposed (£m)	2015-16 Proposed (£m)	2016-17 Proposed (£m)
Staff	59.0	56.5	58.5	57.5
Outsourcing	10.5	10.3	10.0	9.8
Travel	3.2	2.9	2.7	2.4
Other cash costs	9.6	9.6	9.5	9.4
Non-cash costs	3.2	3.2	3.1	3.1
Gross resource requirement	85.5	82.5	83.8	82.2
Income	(19.7)	(19.5)	(19.3)	(17.7)
Net resource requirement	65.8	63.0	64.5	64.5

Capital expenditure

1 We continue to invest in our infrastructure to ensure we operate in the most efficient way. We have recently introduced new knowledge management and audit support systems and are budgeting to introduce a new enterprise resource planning system.

Figure 8

Capital provision 2011-12 to 2016-17

	2011-12 Actual (£m)	2012-13 Actual (£m)	2013-14 Estimate (£m)	2014-15 Proposed (£m)	2015-16 Proposed (£m)	2016-17 Proposed (£m)
Capital provision	1.2	1.1	1.5	1.5	1.5	2.0



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