



National Audit Office

The art of spending public money wisely

NAO presentations to Civil Service Live, 2015

Max Tse, NAO Director, 10 Sept, Newcastle

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The art of spending public money wisely

The work of the National Audit Office (NAO) is driven by the knowledge that every pound of public money spent in one way, is a pound not spent elsewhere. With changing demographics and public expectations there is growing demand for public services, at the same time that total public spending is reducing. Radical new ways are therefore needed to increase the value for money from public spending and improve the quality of public services.

In reviewing the ways in which national and local government bodies are transforming public service delivery we have identified four key, pervasive issues that can block improvement in public service implementation.

These '4 pervasive issues' have been the focus of NAO presentations at Civil Service Live events in 2015.

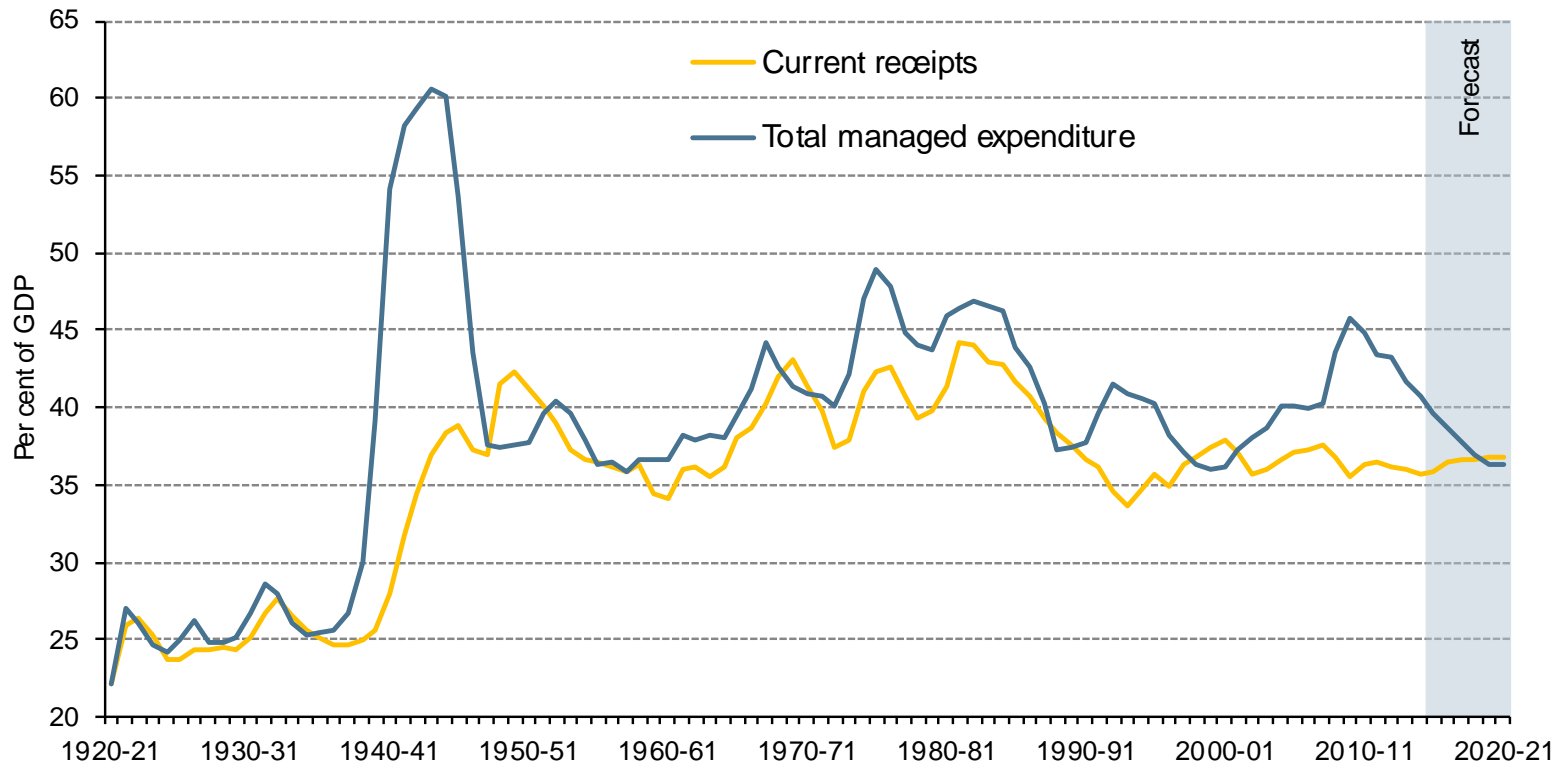
This document:

To incorporate the different aspects addressed by different NAO speakers, the following pages provide a combined summary of the slides and verbal presentations, together with links to the reports mentioned.

Growing pressure on spending

Over the last five years there has been huge pressure to reduce public spending and there is every indication that this will continue in this parliament.

Total public sector spending and receipts:



Source: Bank of England, ONS, OBR

Doing more with less

- There is less money for public spending and the easiest cuts in public spending have been made. At the same time there is growing demand from demographic change and from people's expectations of services.
- To make bigger savings without detriment to those using public services, government needs to find new ways to organise and deliver its services.
- It has started to accelerate delegation to local bodies and contract out more services, create market-like ways of choosing and supplying services, and use digital technology better.
- To succeed, government needs to continue to develop new skills on the part of civil servants, new ways to engage with those using services and new innovative thinking about reforming services.
- It also needs to do this while coordinating national priorities such as growth, environmental management, demographic change and infrastructure development.

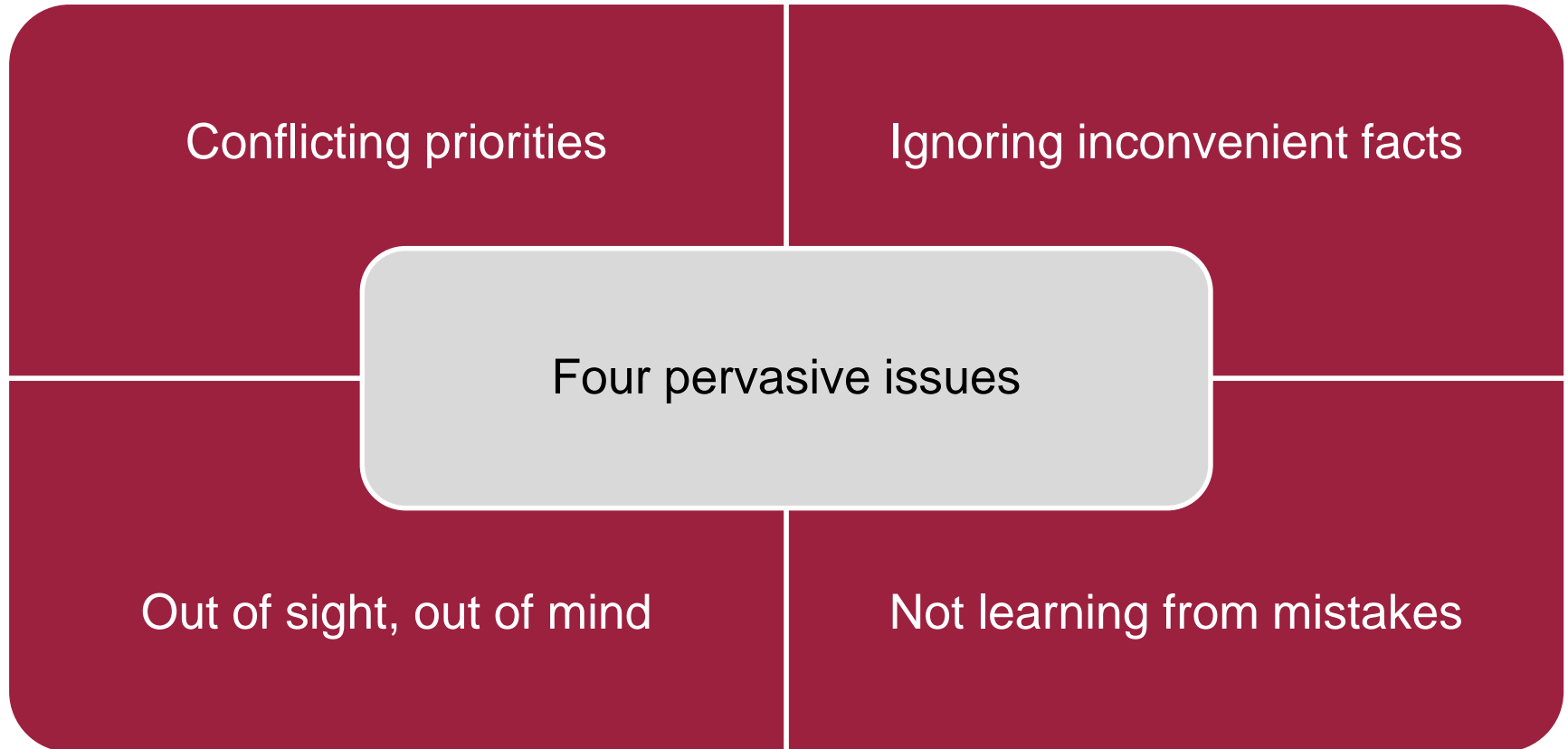
Recent improvements

The NAO has seen real advances in the management capability of many departments in recent years, including:

- Department for Transport (DfT) has improved its management of rail infrastructure programmes, as shown in [Lessons from major rail infrastructure programmes](#) (2014)
- Our work on [Crossrail](#) (2014) showed that DfT and Transport for London have so far done well to protect taxpayers' interests, by taking early action to stop costs escalating and, during construction, tightly managing the programme.
- Our recent reports on DCLG found many of its projects and programmes have been implemented effectively, including:
 - [Help to Buy equity loan scheme](#) (2014)
 - [Council Tax support](#) (2013) and
 - [Affordable Homes Programme](#) (2012).
- In [Ministry of Defence: Equipment plan 2012-2022](#) (2013) we found that MoD's strategy for improving its financial management is delivering results and it has addressed the £38 billion equipment funding gap.
- In [Department for International Development – Financial Management](#) (2011), we found, DFID's allocation of resources has improved and it was more strategic in achieving its objectives.

4 pervasive issues

In looking at good practice and learning from errors, the NAO has repeatedly come across four issues that can block improvements and lead to poor services for citizens. As detailed on the following pages, they must be tackled if there is to be meaningful and lasting improvement in public service implementation and value for money .



Pervasive issue #1

Conflicting priorities

Four pervasive

Out of sight, out of mind

- Civil servants may be reluctant to highlight unrealistic timescales or the need for further pilots and planning as they want to be seen as 'can do'.
- This can generate pressure to hurry the implementation of reforms and projects.
- However, sustainable changes to public services needs a strategic perspective, careful planning and sound implementation.
- If a department can only move at a slow pace, it can be detrimental to value for money to pretend otherwise.
- A department may also only be able to take on so much change at once.
- There is no deliberate resistance but there is unacknowledged reality.
- Where a department has taken time to acknowledge the challenges benefits have been realised.

Handling conflicting priorities

- Sustainable change to public services needs a strategic perspective, careful planning and sound implementation.
- Taking on too much at once can lead to unclear aims, shortages of the right people and skills (eg in contracting or IT), and rushed or unchallenged decisions. In [Welfare reform – lessons learned](#) we highlighted this risk and the need for DWP to improve the way it tracks department-wide capacity for reform.
- Taking time to think through programmes can avoid expensive mistakes as in the [FireControl programme](#)
- Government needs to adopt good practices more widely; prioritising spending on the areas that matter most, avoiding duplication and costly failures, and handling pressures to layer on new initiatives without thinking them through.
- That's why the NAO seeks to help organisations manage change portfolios and align these with a long-term plan for transforming services and internal capacity.

Good examples: handling conflicting priorities

Department for International Development – [Financial Management](#) (2011)

“The Department has improved its core financial management and has an ambitious programme underway to improve its focus on value for money.”

Environment Agency – [Strategic flood risk management](#) (2014)

“In the face of increasing flood risk in England and pressure on defences, the Environment Agency has improved the cost effectiveness and prioritisation of its flood risk spending.”

Pervasive issue #2

- There can be pressure to present the unlikely upside as the most likely result.
- Historically, many major projects in government have under-delivered on benefits and overshot on time and cost.
- This is optimism-bias and our catalogue of work shows examples of it.
- Sometimes unanticipated demand or processing assumptions lead to backlogs in areas like health and disability assessments.
- In other cases changing requirements have led to delays and increases in costs, for example in major defence projects.
- We can't avoid making assumptions about major programmes. But we can understand how these assumptions are likely to affect government's objectives, and to challenge programmes which ignore important risks.

Ignoring inconvenient facts

Pervasive issues

Not learning from mistakes

Not ignoring inconvenient facts

- **Be transparent about the limitations of assumptions.** For example in [High Speed 2: A review of early programme preparation](#) (2013), we found that the department's business case relied on old and partial data.
- **Identify and monitor critical assumptions** on which the success of the programme depends. For example in our 2014 report on the [Army 2020](#) programme highlighted critical gaps in the planned recruitment of reservists.
- **Work through the consequences of variation in assumptions.** The experience of [Personal Independence Payment](#) (2014) shows how changes in operating assumptions created unexpected delays and backlogs in assessments, so these critical assumptions need to be identified early and their consequences worked through.
- **Tackle possible barriers or complications.** Our work on [Transforming government's contract management](#) (2014) has highlighted how difficult it can be to challenge assumptions, manage risks and change requirements across contracts.

Pervasive issue #3

Conflicting priorities

Four pervasive

Out of sight, out of mind

- A lot of responsibilities have moved to local authorities, schools and others as government has increased localism and delegation.
- Central government sets the aims, while local organisations decide how to spend the funding based on local needs and priorities.
- There are real opportunities for local bodies to take control of services and integrate across pre-existing boundaries, for example through the Troubled Families programme or City Deals.
- But when central departments make big decisions and cost reductions that affect other public sector bodies, they still need to be able to support those decisions, ensuring the spending is achieving the desired outcomes, represents value for money and is based on good management information.
- The consequences of poor quality decision-making by a department affects the central department just as much as the body to which responsibility and cost cuts are devolved.

Accountability in local service delivery #1

- Lines of accountability are becoming longer, more complex and more blurred, making it increasingly hard for central government departments to maintain clear lines of accountability for public spending and understand how users are affected.
- Examples:
 - In our 2014 report on [Housing Benefit fraud and error](#) we found that DWP needed to make sure local authorities had the right incentives and support to tackle fraud and error.
 - Local authorities spent £2.5 billion in 2012-13 supporting children in foster and residential care. Our 2014 work on [Children in care](#) concluded that the Department for Education was not holding local authorities to account effectively for delivery of these services to children in care, did not adequately understand the factors contributing towards the costs of care and could not demonstrate that it was meeting its own objectives.

Accountability in local service delivery #2

Government has described the systems of accountability but our work has shown that it remains unclear how accountability will work in practice.

Local government funding: Assurance to Parliament

“Local authorities have more freedom to allocate funds according to their own priorities, but the government has less information on how funds are being spent. The Department must still assure itself that the local accountability system that oversees local spending is effective. The DCLG’s arrangements to assure Parliament over funding are in transition, but the Department should do more to understand whether the system for funding local government is effective in delivering value for money.”

Amyas Morse, Comptroller & Auditor General (C&AG), 25 June 2014

Devolving responsibilities to cities in England: Wave 1 City Deals

“Wave 1 City Deals were an important part of a longer-term discussion between local leaders and central government about devolution and growth. There were lessons for both sides; for example, some programmes in the Deals have had an early impact, but there have been delays to some more ambitious and innovative programmes. It is in the interests of both cities and the government to know which programmes have the biggest impact for the money invested. However, their understanding of this will remain limited without a shared approach to evaluating the impacts of the programmes”

Amyas Morse, 9 July 2015

Funding and structures for local economic growth

“Three years on from the 2010 White Paper, the new local Enterprise Partnerships are taking shape and jobs are being created. But the transition from the old to the new schemes has not been orderly and there has been a significant dip in growth spending. To secure value for money from both the existing schemes and the new £2 billion Growth Deals, central government needs to make sure that there is enough capacity centrally and locally to oversee initiatives, that timescales are realistic and that there is clear accountability.”

Amyas Morse, 6 December 2013

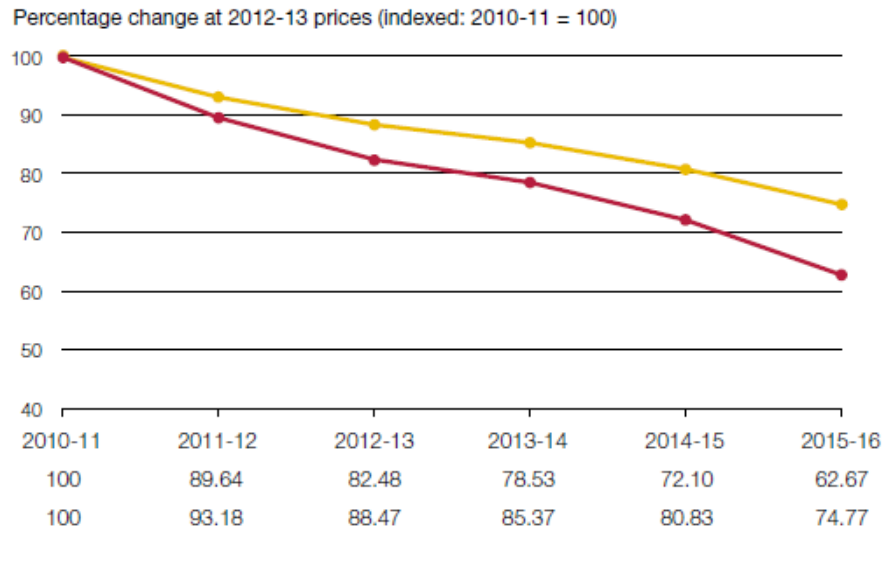
Financial and service sustainability

- Without understanding how new responsibilities and smaller budgets affect local services, central government creates risks to service delivery and financial uncertainty for local bodies. Rather than improving cross-boundary working as intended, cuts in unsustainable services may lead to knock-on costs elsewhere across government.
- As summarised on the next three slides, the NAO has reviewed the sustainability in local services, with the aim of both helping central government understand how changes in responsibilities and funding are affecting local services, and helping identify and share good practice across local services:
 - [Financial sustainability of local authorities](#) (2014)
 - [The financial sustainability of NHS bodies](#) (2014)
 - [Financial sustainability of police forces in England and Wales](#) (2015)
 - Current work on fire and rescue services.

Financial sustainability of local authorities

Change in spending power and government funding, 2010-11 to 2015-16

Government funding has been cut more steeply than local authority income once council tax is taken into account



37%
fall in central government funding to local authorities in real terms, and on a like-for-like basis, between 2010-11 and 2015-16



25%
fall in local authorities' income in real terms once council tax is included between 2010-11 and 2015-16

Note

1 Spending power includes both the core funding local authorities receive from central government and the council tax income they raise themselves.

Source: National Audit Office analysis of Department for Communities and Local Government data

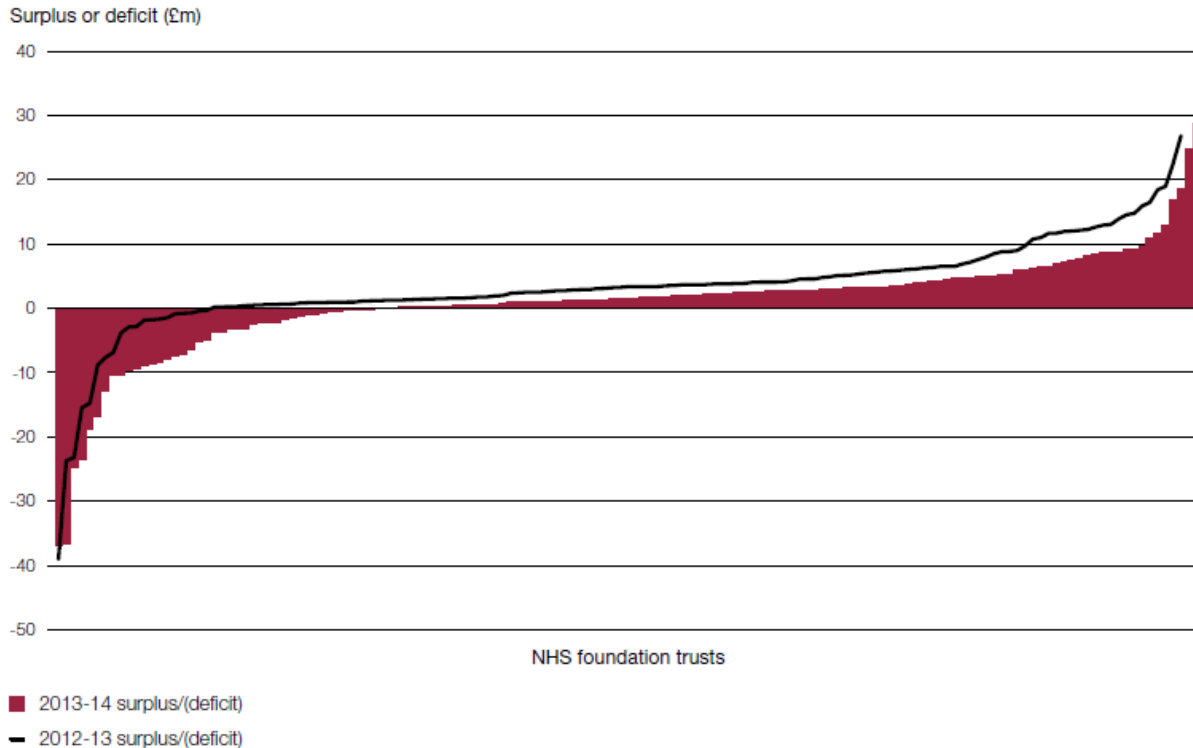
“Local authorities have worked hard to manage reductions in government funding at a time of austerity. At the same time, there is evidence of some service reductions. The Department really needs to be better informed about the situation on the ground among local authorities across England, in a much more active way, in order to head off serious problems before they happen. It should look for evidence of financial stress in local authorities to assure itself that they are able to deliver the services for which they are responsible. It should be clear about the knock-on effect of the various funding decisions taken by departments in Whitehall.”

Amyas Morse, C&AG, 19 November 2014

Financial sustainability of NHS bodies

Surpluses and deficits of NHS foundation trusts, 2012-13 and 2013-14

Foundation trusts had lower surpluses in 2013-14 than in 2012-13, and more were in deficit



More than
1%
increase in real-terms funding
for health in the last 4 years



40 NHS foundation
and **26** NHS trusts
reported deficits in 2013-14



13
NHS foundation and
NHS trusts were in special
measures in May 2015

“An increasing number of healthcare providers and commissioners are in financial difficulty. The growth trend for numbers of NHS trusts and foundation trusts in deficit is not sustainable. Until the Department can explain how it will work with bodies such as NHS England, Monitor and the NHS Trust Development Authority to address underlying financial pressures, quickly and without resorting to cash support, we cannot be confident that value for money will be achieved over the next five years.”

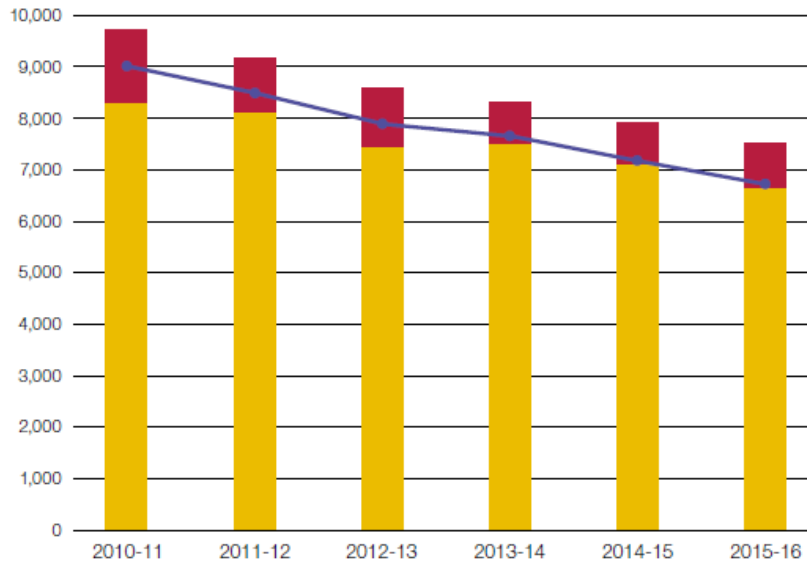
Amyas Morse, C&AG, 7 November 2014

Financial sustainability of police forces in England and Wales

Central government revenue funding for the police, 2010-11 to 2015-16

Direct funding to forces has decreased by 25% in real terms since 2010-11

Real-terms figures deflated to 2010-11 levels (£m)



■ Specific grants (resource departmental expenditure limit)	1,384	1,037	1,124	775	778	853
■ Formula grant (resource departmental expenditure limit)	8,325	8,139	7,473	7,528	7,131	6,673
● Government funding direct to forces	9,022	8,498	7,888	7,651	7,177	6,727

Note

1 Figures in this graphic have been adjusted for inflation and so will not match the 2014-15 expenditure figures in the commentary (left)



127,075
police officers
 employed in England and Wales
 at the end of September 2014



3.8 million
offences recorded
 in England and Wales in the
 year ending December 2014

“Although police forces have successfully reduced costs, without a thorough understanding of demand or the factors that bear on their costs it is difficult for them to transform services intelligently. The Home Office also needs to be better informed to discharge its responsibilities. It needs to work with HMIC, the College of Policing and forces to gain a clearer understanding of the health of the service, particularly around demand and on when forces may be at risk of failing to meet the needs of local communities.”

Amyas Morse, C&AG, 4 June 2015

In sight, in mind

- Ensure proper lines of accountability for public spending
- Balance credible savings with long-term value for money
- Take into account the implications of decisions for other organisations' costs
- Have comparable performance and cost data
- Understand the evidence and evaluation
- Share what works best across sectors

Pervasive issue #4

- Many public services are now delivered through quite different mechanisms from 30 years ago, 20 years ago, even 10 years ago.
- ‘Quasi markets’ – halfway between public sector delivery and the free market – and devolved delivery mechanism are much more the norm.
- This, coupled with high levels of complexity in project management, is a fairly new way for government to deliver public services.
- Changing the way government works is not easy.
- New skills are needed, particularly in business planning, commercial contracting, digital and project management.

Ignoring inconvenient facts

Pervasive issues

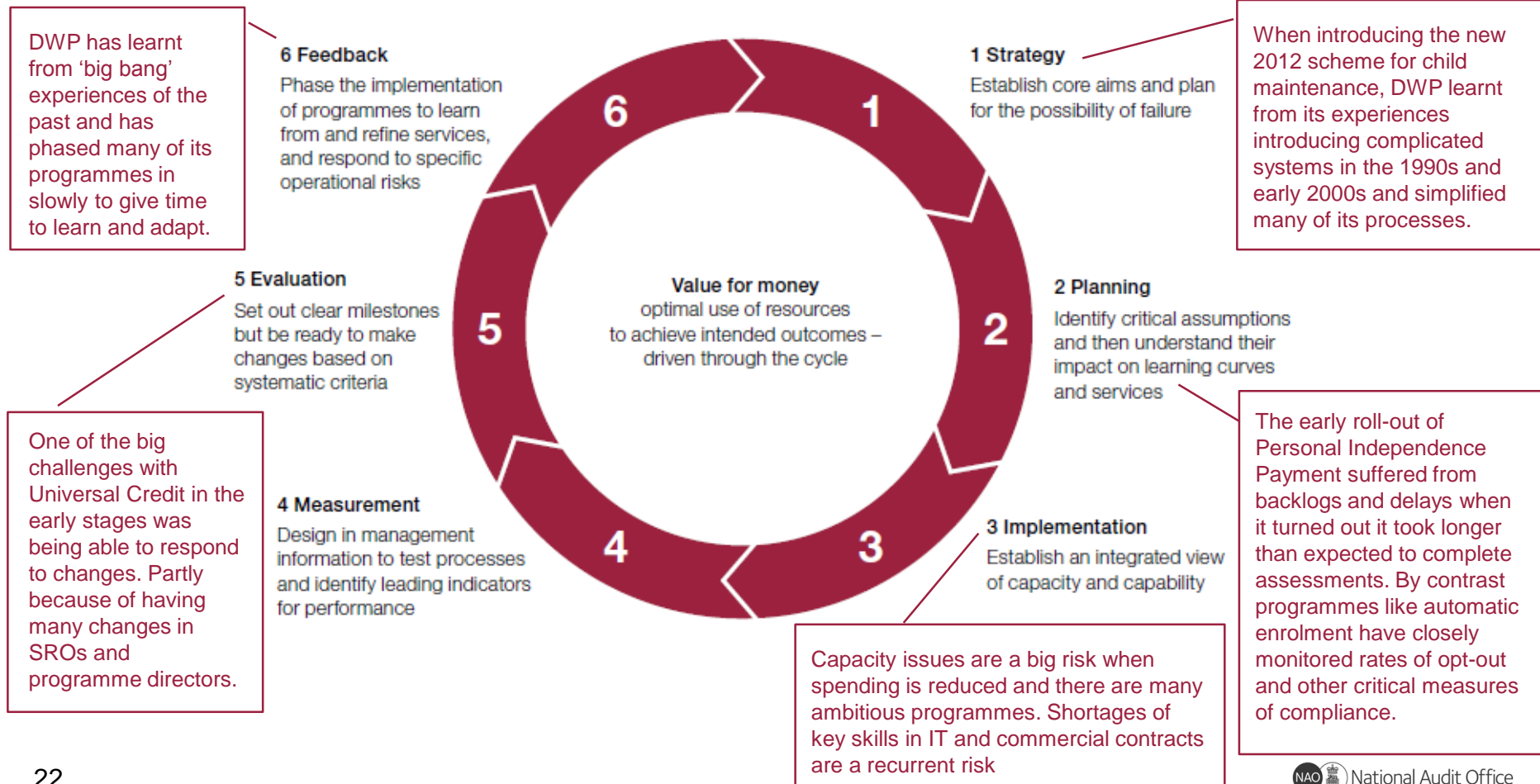
Not learning from mistakes

Learning from mistakes

- Improving services while reducing spending means government cannot afford to make costly mistakes or ignore past lessons.
- There are some great examples where government has learnt from past experience. These show that learning from mistakes requires government to:
 - Develop a culture of learning from mistakes and successes.
 - Provide the right incentives and culture to support civil servants' innovation and continuous improvement.
 - Put civil servants consistently where they can give that leadership with confidence and lead through the problems that there may be and implement the lessons from past projects.
 - Improve departments' ability to share lessons, both good and bad.

Lessons from recent welfare reforms

Our [Welfare reform – lessons learned](#) report showed that government can learn the following lessons from big programmes such as Universal Credit, Personal Independence Payment, the Work Programme and child maintenance.



Finding out more

All reports are available at www.nao.gov.uk

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