

NAO C&AG speech at the Institute for Government (21 July 2016)

Introduction

Thank you Julian for that introduction. I am grateful for this invitation to speak here today.

I'd like to talk about how we have a historic opportunity to build a set of national priorities for government. But first let me say something about why I want to talk about this now.

This year marks the 150th anniversary of the inception of the NAO, in spirit if not in name, by the passing of the **Exchequer and Audit Departments Act 1866**.

The Act established the position of the Comptroller and Auditor General and the Exchequer and Audit Department.

This new post was entrusted then as now, with the responsibility for auditing the financial accounts produced by each government department and reporting the results to Parliament.

I am the **17th Comptroller and Auditor General**.

No matter the face of the Comptroller and Auditor General the mission stays the same.

That mission as I see it, and as **William Gladstone** saw it when he created the role of Comptroller and Auditor General 150 years ago, is to support Parliament in holding government to account for spending public money.

Our work

So, while we reflect on our history with a sense of achievement, I want us to focus on the now and the future.

Today, I have published **two reports**:

- on the **2015 Spending Review** - which shows there is no overarching strategic framework for spending; and

- on **progress with Single Departmental Plans** - which show that the Plans are a positive step but they are not yet a credible framework for planning over a three-year period.

And later this year the NAO will publish a **study on civil service capability**. The aim for this study is to answer the following question: *‘Does government have a coherent plan for closing the current ‘capability gap’?*

My hunch based on previous work in this area and the shape of the current evidence is that the government does have a plan. But it is not comprehensive and is based on growing skills in the civil service, and that will take time to develop.

Much of what I will go on to say is contained in these reports in greater detail. And I am grateful to the NAO team who have worked very hard to look into these issues.

I am hugely supportive of the work that **John Manzoni** is doing in the Cabinet Office. A lot of what is in our reports, John is addressing.

His work to bring in single departmental plans and to ensure we have the best people with the right skills throughout the civil service is to be commended.

There have been advances - for example the guidance on managing major projects has been significantly improved in recent years.

But this is a consensual process that will inherently bear fruit over time.

Importance of prioritisation

The NAO has this unique insight into the whole of government that no one else has.

I want to draw on this to talk to you about what it means to manage and prioritise such a huge array of government activities and projects, and to do it well?

We must start by not pretending that the civil service can deliver whatever ministers throw at it.

The civil service is over-committed. Our work gives us ample evidence of this.

For example we often see, as we have seen with **HS2** and **Universal Credit**, costs rising and timetables being extended.

The civil service needs to stop doing things that are not mission critical. To decide what to stop or delay, Government must get much better at prioritising its activities and projects.

That means working out which initiatives use lots of resources but are only really 'nice to have', and deprioritising those activities.

At present, the **Government's portfolio of major projects** is enormous.

It includes central government's biggest and riskiest projects, and in September 2015 it had an estimated whole-life value of **£405 billion**.

This portfolio could profoundly transform our national infrastructure and public services.

Indeed, the **Infrastructure and Projects Authority** suggests between 70% and 80% of their projects are transformation projects with a large digital element.

And civil servants are being asked to deliver this at a time when Westminster departments have ever smaller workforces.

As of December 2015, civil service headcount was down nearly one-fifth since 2010.

With such a large portfolio of major projects, I frequently see a 'muddling through' at the expense of a real business-like managerial approach to policy implementation.

A 'go for it' heroic effort is prized at the expense of clearly thought-out strategic prioritisation.

Reasons why we over-commit

So why is the civil service over-committed?

In our work, we have repeatedly found that problems in the delivery of public services can be traced back to the way in which civil servants and Ministers make decisions about implementing policies and running major projects.

Ministerial terms are often short, sometimes less than five years, and each Minister wants to make his or her mark.

Ministers want initiatives that they can bring to fruition during their term in office.

Imagine the oddity of a new Minister standing up in the House to say: "*I have no new policy initiatives to announce because my department is at capacity in terms of what it can do well. So I am diligently carrying on the initiatives started by my predecessor in an effort to bring them in on time and on budget.*"

Whilst my staff and I would find this immensely refreshing and so might the taxpayer, in our current political culture that would be met with a few raised eye brows!

And this is coupled with the fact that - as I see it - civil servants find it very difficult to tell Ministers that they cannot deliver.

In my experience, and in the experience of several retired civil servants I know, civil servants are understandably keen to please and seem 'can do'.

This means that projects go ahead when departments don't have the spare resources to take them on. And often without knowing the private sector's capacity to play their part.

For example, HS2 is relying on developing a whole new, cheaper, supply chain to bring that project in within its planned cost.

And this can contribute to unrealistic expectations of what is achievable.

We are in effect 'robbing Peter to pay Paul' - denuding one project to start another.

We have seen this when it comes to **major rail projects**. Civil servants are pulled away from one project to work on another before the other has reached its conclusion.

We need to ask ourselves, can the public sector deliver Hinckley Point C, a third runway, HS2, a northern power house, nuclear decommissioning, Trident renewal *and* Restoration and Renewal of the Palace of Westminster all at the same time?

All these projects are drawing on the same pool of skills and many of these contain optimism bias that they will be able to meet their skill needs at an appropriate cost.

One thing is clear, given the dynamics and track record I've outlined, departments are unlikely to reduce these commitments under their own steam. This needs to be part of a wider, overarching and imposed approach.

Record of accomplishment

To date, the Government's record of accomplishment is best characterised by the phrase 'we get their in the end instead of right first time'.

In the last Parliament, while the NAO reported on improvements in the way aspects of projects in some departments were managed, we also reported regularly on project failures and on ongoing projects that were experiencing considerable difficulties.

Our work on managing business operations also showed that government has weaknesses in many aspects of its systems.

And the Committee of Public Accounts has been frustrated by the lack of workforce planning in the civil service, and for teachers and NHS staff.

The Government has responded positively to a range of our past recommendations.

For example, the Cabinet Office acknowledged that it, and departments, needed to do more on workforce planning.

But still we see persistent failures in values for money.

Skills, money and the capability gap

Let's pause for a minute and consider that doing things well is more complicated than it used to be.

The activities of government are ever more interdependent and much more technical than in the past. Failure, now, does ever more damage to public value.

To get such projects right there are three main dependencies: skills, money and time.

When it comes to **skills**, today's civil service needs people who can carry out highly technical projects with large digital and behaviour change components.

People with these skills have a cost and the government needs to ensure there are enough such people in the market place and in the government's commissioning function, and that the balance between them is right.

That's of course in addition to people with project and portfolio management skills.

And where there are **capability gaps**, the government needs to have a clear idea of those gaps.

In 2015, we did some work to look at digital skills across government.

The '**digital capability gap**' in people terms means that government needs to find around **2,800 staff** with the digital skills to undertake its digital change projects over the next five years.

If government managed to employ all of the digital specialists required as **permanent civil servants**, it would cost **£213 million** to fill the gap. And it would be roughly double that in contract labour.

When it comes to **money**, departments have been asked to do more with less whilst being handed smaller budgets themselves.

Some departments still appear to have big reform plans to transform the way they deliver and reduce their headcount. For example, in the last Parliament Spending Review BIS – as was - has had its administration budget cut by 40%. We need to ask ourselves is it reasonable to plough on with such departmental reform plans.

Finally on **time**, I frequently see unrealistic timescales as optimism bias has crept into project planning.

Why and how to prioritise

If we are over-committed, we need to lighten the load – and that means stopping doing things. This can be done by not adding projects, or by cancelling existing ones.

Prioritising is about making these choices intelligently. So we need to know how much scarce resource would be released by a particular decision and what consequences that decision would have elsewhere.

Departments should routinely keep track of these priorities and recognise wider government needs when called on.

It is not for me to say what the government's priorities should be, but let me give an example to illustrate the web of high dependencies.

For something like the **project to provide real time information at HMRC** if that had been deprioritised that would have had a knock on effect for Universal Credit, PAYE and many of the activities of DWP and HMRC. So to delay that project would jeopardise many other major projects at other departments. That would make it an unattractive choice.

Let's suppose that the Government say the potential **replacement of the emergency services' airwave network** as a relatively free standing project and able to wait for a few years. This would an example of something that could be delayed.

As I have said I am hugely supportive of the work that **John Manzoni** is doing.

But the current collection of processes do not yet amount to the coherent framework for prioritising and managing public sector activity.

And progress is too slow for the current dynamic environment in which we find ourselves. Improvement is slower than the growth in the challenges the public sector faces.

And today, the situation is ever more urgent...

Brexit and Scotxit

Because now, we have Brexit.

[PAUSE]

Having taken the decision, Brexit brings with it a completely new layer of unknowns and requirements. It will be a major upheaval for the public sector for years to come and it can fairly be described as an 'abnormal challenge'.

The Government does recognise this I think. Some of the machinery of government changes we have just seen imply an acknowledgement of the scale of the challenge.

But we can already see the beginnings of existing activities being denuded of capability as civil servants are pulled away to Brexit related activities.

And we could find that we add to that a possible 'Scotxit' – please note my personal invention of this term! – given that Scotland voted to remain in the EU.

Add to that our massive major projects portfolio, and my experience of watching the public sector at close quarters tells me the system could come to a halt under its own weight.

We will have set civil servants a Herculean task and set them up to fail. And none of us can afford that.

Please don't misunderstand me, I am not joining the clamour pointing to our lack skills in trade negotiation.

My point goes further. If that were the only issue, we'd be relatively well placed!

I am calling for a step change in the way we manage the activities of government. Brexit means lots of additional work for departments.

Every department will need to do a stock take of its interactions with the EU.

Everything from EU science research funding, to aviation policy, to fisheries policy – and almost everything that DEFRA does - will need to be looked at and new systems and business operations put in place to fill the gap left by the EU.

Already we can see the UK being cut out of some EU systems, science funding being one area.

Let's use this historic juncture to change the way we manage government and plan on a holistic basis so that Ministers and civil servants can look across the whole of government activities and decide what is essential and what is not.

This is crucial for achieving value for money.

Conclusion

In conclusion, Ministers need to recognise the depth of the challenge they face.

Quite understandably, they often have eyes too big for their stomachs.

I realise that this doesn't sound like I have a lot of sympathy with Ministers and their dilemma. But I really do – managing the political culture is not easy.

But we should not be running on perpetual overload as a normal state – so we need to be in control of and manage our commitments against our capacity to carry them out.

We are going to have to prioritise Brexit across government, not just in the new Brexit department.

Let's manage the change pro-actively across government rather than as a series of panic measures. There is the potential for a real mess if this isn't gripped.

But on the other hand, there is an historic opportunity to change how we do things on a permanent basis.

And finally, on a lighter note, my last thought - as the latest avatar of the Comptroller and Auditor General, I will use the opportunity of my 150th birthday to say at a time of such interesting and challenging events, I'm looking forward to another 150 years.