National Audit Office

REPORT

Improving government's productivity through better cost information

Cross-government

SESSION 2024–2026
15 SEPTEMEBER 2025
HC 1291

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 2024, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £5.3 billion. This represents around £53 for every pound of our net expenditure.

Improving government's productivity through better cost information

Cross-government

Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 11 September 2025

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act

Gareth Davies
Comptroller and Auditor General
National Audit Office

9 September 2025

HC 1291 | £10.00

016869 09/25 NAO

Contents

This report can be found on the National Audit Office website at www.nao.org.uk

If you need a version of this report in an alternative format for accessibility reasons, or any of the figures in a different format, contact the NAO at enquiries@nao.org.uk

The National Audit Office study team consisted of:

John Bell and Jonathan Pownall, under the direction of Yvonne Gallagher.

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

020 7798 7400

www.nao.org.uk

@NAOorguk

Summary

1 Understanding the cost of government's services is important for achieving sustainable productivity improvements. By service we mean the people and underlying operations and activities to provide an outcome for a user. Examples include applying for an entitlement or submitting information required by regulations. Information about costs helps organisations to identify poorly performing services and inefficiencies, prioritise resources and assess the opportunities for innovation and digital transformation.

2 Given the financial pressures on public bodies and the importance of achieving productivity improvements, our aim with this report is to help government get the most value out of the money it spends on managing and running departmental services. This report is an initial assessment of the need for better cost information and the practical steps government can take. In this report we bring together recent findings and recommendations, and consider:

- the limitations in government's understanding of service costs and previous attempts to improve cost information; and
- how government can address these limitations drawing on established techniques and good practice.

3 We have not undertaken a systematic review of service cost information held across government in departments and their arm's-length bodies. We emphasise that understanding running costs is not just about knowing the total of the cost base. Rather, it is about having a more granular understanding of where costs arise in individual activities that collectively make up an overall end-to-end service. This may include areas such as handling applications, customer contact centres, in-person services, back-office checks, producing physical outputs, and the systems that support these functions. In Part Two, we describe government's own attempts to acquire such information.

Summary findings

4 Some government departments have a limited understanding of the costs of individual services. Government expects to spend £450 billion annually on its operations, and yet some departments do not know the costs of individual services at a more granular level of detail, nor where excess costs arise from people having to work manually around cumbersome, old systems and poor-quality data from fragmented data sources.

5 **The lack of cost information is a barrier to achieving government's productivity aims.** The 2025 Spending Review has set ambitious targets for productivity and efficiency across government. However, our previous work has shown that poor data often leaves departments unaware of the underlying cost drivers and hence the opportunities for improvement from better processes, data and technology. Without detailed cost insights, government cannot prioritise intervening in the most expensive or inefficient areas, nor assess the return on investment in digital transformation or service redesign.

6 **Previous attempts to improve departmental cost information have suffered from inconsistencies in approach and lack of sustained focus on data infrastructure.** The 'Top 75' programme led by the Central Digital & Data Office (now Government Digital Service) between 2022 and 2025 aimed to identify the costs in the 75 most used government services. A lack of sponsorship to improve data in departments and other public bodies limited its progress and the programme closed with only 29 of the top 75 services being assessed as 'great'. This highlights a recurring challenge: that without sustained effort, government will find it difficult to identify the basic data needed to understand what drives the cost of services and where money is being wasted so as to improve efficiency and productivity.

7 **There remain significant opportunities to improve the quality and use of service cost information in departments.** Before closing, the 'Top 75' programme identified services with high costs due to poor data, legacy system limitations or inefficient processes. Our own work has identified services where costs are not fully understood, in areas such as some fee-paying services or departmental recruitment processes.

Conclusion

8 Improving productivity is essential if government is to deliver on its growth agenda, address fiscal pressures and improve outcomes for the people who depend on public services. The lack of reliable and usable cost information about government services makes it harder to identify opportunities for improvement, drive efficiency and realise meaningful cost savings. Previous efforts to develop cost estimates have often lacked consistency or momentum, limiting their impact. Yet the potential value of robust cost data is significant. It can inform better decision-making, support productivity gains, and help deliver on the government's growth agenda. Public bodies should act with urgency to build a clearer, more consistent understanding of service costs.

Recommendations

9 HM Treasury and the Government Finance Function should agree with Cabinet Office the accountabilities and responsibilities for taking forward the following recommendations.

10 HM Treasury and the Government Finance Function should:

a work with leading-practice sponsor departments to produce a new guidance document for departments, setting out how the principles of process and activity costing could and should be applied to government services, including specific, practical examples of what can work, providing a greater level of detail than just high-level principles.

11 Permanent secretaries and departmental senior leaders should:

b create incentives for those involved in business processing and service delivery to underpin and ensure compliance with the new guidance, such as new performance objectives.

12 Departments should:

c define the scope and boundaries for all major services and designate a senior responsible service owner at a high level of seniority for each, with sufficient accountability for the end-to-end service and understanding, managing and improving service costs at the operational level;

d embed ownership at the service level to help ensure consistent ways to provide evidence-based conclusions that can guide decisions such as where to cut costs, invest more, redesign services or improve efficiency; and

e establish governance arrangements such as oversight boards or assurance processes to monitor progress, validate cost data usage, track system benefit realisation and provide accountability to senior leadership and relevant stakeholders.

13 Departmental finance functions should:

f use the techniques suggested in this report to understand the organisation's cost drivers, and where to target cost savings, including where simple 'quick wins' could deliver results and maintain impetus;

g work with service owners and responsible directors to monitor and manage service costs towards relevant and agreed productivity targets; and

h identify where targeted capability building would help ensure that finance teams and service owners are equipped to deliver on these expectations.

Part One

Understanding of costs

1.1 This part of the report sets out the importance of gathering well-developed cost information to support government's ambitions around public sector productivity. It also sets out the limitations of government's current understanding of the costs of the services it provides, and the challenges it has faced in improving cost information. Within these we include the people and other costs of the underlying operations, business processes and activities. We refer to these as 'service costs' in this report.

The need to improve public sector productivity

1.2 Productivity improvement is central to the government's aims for affordable public services. The 2025 Spending Review set out ambitious plans for "a step change in investment in digital and artificial intelligence across public services" and a commitment to "drive a major overhaul in government productivity and efficiency." It emphasised the need for a more productive and agile state, aiming to create a "cost-conscious culture that relentlessly roots out waste, drives efficiency and protects taxpayers' money." It set ambitious targets of at least 5% efficiency savings by 2028-29 and 16% real terms decrease in administrative budgets by 2030.

1.3 Departmental services underpinned by inefficient legacy systems and processes are expensive to run and become increasingly costly as changes are layered on top. Despite bold ambitions, government's own analysis of transformational efforts over the past decade or so has found that it has prioritised simpler, online citizen-facing transactions for transformation.[1] More complex and costly services have been left behind. Identifying the costs of these services would highlight where the effort needs to be applied to have most impact.

1.4 In 2024-25, central government departments spent an estimated £450 billion on the day-to-day 'current' running costs of public services, grants and administration. This is approximately 35% of public spending. Simple cost reduction, through imposing headline budget reductions, does not address the underlying reasons for inefficiency of services or delivery processes in organisations, nor how effectively inputs and outputs deliver the right outcomes. Improving overall organisational efficiency requires better information to understand where the inefficiencies lie within thousands of public service delivery processes.

1 Comptroller and Auditor General, *Digital transformation in government: addressing the barriers to efficiency*, Session 2022-23, HC 1171, National Audit Office, March 2023, available at: https://www.nao.org.uk/reports/digitaltransformation-in-government-addressing-the-barriers

Current limitations in government's understanding of costs

1.5 Most government organisations generally have a good understanding of their total costs. In some cases, determining an average cost can be a helpful indicator of cost pressures and the changing nature of demand. For example, HM Revenue & Customs estimates the average cost of collection for different taxes, to support its assessment of the administrative costs of taxes over time.

1.6 However, we have also found that departments often lack access to data at the appropriate level of detail to analyse the operational costs of specific business processes, or different stages of the customer journey. This limits their ability to identify inefficiencies in systems and prioritise areas for appropriate cost reduction. It also limits the ability to measure improvement.

1.7 Our previous reports have also raised similar issues:

- In our 2019 report on *Challenges in using data across government*, we found that organisations do not monitor the time or costs involved in sorting poor-quality or disorganised data. In some cases, cleaning and merging data took between 60% and 80% of people's time. We said that understanding the time and costs spent on working around discrepancies in systems could provide valuable information for government on how and where to focus resources.[2]
- In our 2022 report on *Modernising Defra's ageing digital services*, we recommended that departments and government bodies with legacy technology issues should develop a better understanding of the additional people and business costs of the continued use of unmodernised digital services.[3]
- In our 2023 report on *Civil service workforce: Recruitment, pay and performance management* we said that organisations wishing to improve the efficiency of their processes need to have a clear understanding of their costs. We found that most departments underestimated costs because they could not provide full-time staff costs for activities, largely because some departments do not require staff to record time spent on different work activities.[4]

1.8 Our published insights on improving operational delivery in government show a whole-system approach is needed to achieve improvement in service quality and efficiency. A whole-system approach, built on better cost data, provides the basis for continuous improvement that focuses on overall efficiency and outcomes rather than what is good for one part of the system (**Figure 1**).

2 Comptroller and Auditor General, *Challenges in using data across government*, Session 2017–2019, HC 2220, National Audit Office, June 2019, available at: https://www.nao.org.uk/insights/challenges-in-using-data-across-government
3 Comptroller and Auditor General, *Modernising Defra's ageing digital services,* Session 2022-23, HC 948, National Audit Office, December 2022, available at: https://www.nao.org.uk/reports/modernising-ageing-digital-services-defra
4 Comptroller and Auditor General, *Civil service workforce: Recruitment, pay and performance management*, Session 2023-24, HC 192, National Audit Office, November 2023, available at: https://www.nao.org.uk/reports/civil-service-workforce

Figure 1

Relevant National Audit Office (NAO) insights from improving operational delivery

Our insights reports have highlighted the importance of understanding costs and of service ownership

Good practice	Priority areas to get right	Factors to consider
Costs need to be understood as part of an informed, rounded view of performance and potential to improve productivity. This addresses the risk that a purely financial and finance team perspective dominates government's response and changes to performance measurement.	Understanding of cost alongside the quality of service to inform understanding of value returned for investment and where to challenge current costs or change services.	Is the right performance information available at all levels of the organisation? Performance information should include a balance of quality, people, cost and output measures. We often see organisations focus on output at the expense of quality measures, telling them what has happened after the fact rather than why. Decisions on how to change are based on opinion or best guesses rather than evidence.
	Understanding where the costs incurred in services are on work which adds value or non-value adding work. Reducing the cost of doing the 'wrong thing' or serving failure demand should not be the end goal.	Organisations need measures that help them understand where and why service performance is failing. They can track and act on problems as they occur, or even ahead of time, and provide a better service at lower cost. Organisations can reduce failure demand by helping get work right first time more often. Our work has shown that understanding the causes of avoidable customer contact, complaints and concerns is key to improving services.
The importance of understanding cost in order to make a compelling case for change.	Focus on total cost of service rather than the individual functional parts, otherwise costs are pushed elsewhere and backlogs develop.	Achieving value for money requires government officials to make decisions that are good value for the Exchequer as a whole, not just for the organisation they work for. Adopting an end-to-end service perspective can help public service managers strike the difficult balance between their obligations to deliver results for the vertical accountability and funding stream they work in and acting in the public interest.
	The ability to make improvements, not just changes, based on informed decisions on what, where, how to change and why to achieve better productivity.	Making informed decisions about what needs to improve should consider potential impacts elsewhere in the end-to-end service or wider system. Organisations should have balanced performance information across the end-to-end service, including on quality, cost and output, to make evidence-based decisions about how to change services.
The role of service ownership, recognising that without this there is a risk of siloed decision making (by teams or functions) impacting overall productivity.	Service owners need to make decisions based on overall 'total cost of service'.	Clarity helps make better decisions for the whole process. For example, one part of the process may take more time or incur cost to reduce the effort or cost elsewhere, or improve the service provided. In more than three-quarters of our assessments, we found no such evidence of clear process ownership.
	Service owners need to have accountability for service performance and improvement.	Leaders should appoint 'process owners' accountable for integrating all parts of the end-to-end user journey. This includes putting in place an approach to solving problems that cross organisational boundaries. Use an end-to-end process perspective to make the business case for investing resources in one organisation that lead to increased efficiency in another.

Source: National Audit Office, *Improving operational delivery in government: A good practice guide for senior leaders*, March 2021, pages 21–23; Comptroller and Auditor General, *Lessons learned: Smarter delivery – improving operational capability to provide better public services*, Session 2024-25, HC 952, National Audit Office, June 2025, pages 33, 35, 37

1.9 This situation contrasts with most organisations outside central government, such as private sector firms, where access to detailed cost information is standard practice and the incentives to use it are clear. In the private sector, the profit motive drives a strong focus on cost control and operational efficiency.

1.10 Departments having better cost data would mean better data flowing through to HM Treasury, and ultimately better challenge and future decisions being made available by spending teams for departmental budgets. As part of the 2025 Spending Review, the government conducted a 'zero-based' review by examining every line of public expenditure. To support similar exercises in the future, senior decision-makers, including departmental permanent secretaries, chief executives of delivery organisations, and their boards, will require improved cost data to meet heightened expectations within limited resources. Enhanced data will also empower them to clearly justify the choices they make.

Government's attempts to address this area

1.11 Government attempted to address the problem of lack of data on services via its 'Top 75' services programme as part of the 2022 to 2025 roadmap for digital and data. This programme, set up by the Central Digital & Data Office (CDDO), now part of the Government Digital Service, identified that one ingredient of a 'great' service is that it minimises wasted time, effort and money for the organisation providing it.

1.12 CDDO worked with departments and identified the following issues with government services:

- simple online journeys had been prioritised for transformation, with the more complicated ones left behind;
- digital front ends were masking significant opportunities for streamlining the way an overall service operates; in particular, many services did not have 'straight-through processing' within a digital system;
- there were significant levels of 'failure demand', namely the extra costs of dealing with customers who could not accomplish what they wanted the first time around;
- it was difficult to integrate new services into a legacy environment; and
- there were wide variations in how performance is measured, even within departments.

1.13 Under the 'Top 75' programme CDDO undertook 'deep dives' and worked with departments to gain information to:

- break down the end-to-end service process to cover the front-end interactions with the user, the back-end underpinning processes, and the 'pain points' throughout the process;
- identify the total cost of a service; and
- highlight the biggest opportunities for service improvement and cost reduction, as well as blockers.

1.14 Working with departments in this way highlighted attempts to provide the cost for some aspects of services, such as budgeted unit cost with allocation of general overheads for some components of some services. However:

- there was little data on actual end-to end service costs at a level that would identify drivers of cost in those services;
- there were widespread inconsistencies, and attempts at quantifying cost per transaction were often calculated without including all operational costs; and
- departments also found it difficult to break out more granular information on cost drivers from their wider cost models.

1.15 CDDO found examples of services where the cost per transaction did highlight inefficiencies arising from system limitations. For example, Pension Credit had a relatively high cost per transaction because, despite having an online application process, it required caseworkers to re-enter information into multiple separate legacy systems. This level of granularity allows for improvements to be quantified. More typically, costing models were based on a top-down allocation of overheads based on assumptions, rather than detailed, bottom-up analysis. Good practice involves using more granular, activity-based costing approaches that can reveal duplications, bottlenecks and other specific drivers of cost and inefficiency. This is important to enable more targeted and effective interventions and to help shape and inform strategic decisions about service design and resource allocation.

1.16 The *State of digital government review* published by the Department for Science, Innovation & Technology in January 2025 identified that CDDO has driven a focus on the 'Top 75' from the centre.[5] But a lack of sustained senior sponsorship and relatively little focus on data infrastructure in departments have limited the impact of their work.

5 Department for Science, Innovation & Technology, *State of digital government review*, January 2025, CP 1251, available at: https://www.gov.uk/government/publications/state-of-digital-government-review

1.17 The 'Top 75' work has formally closed, but this exercise illustrated how acquiring elements of cost data at working level was too difficult. Service costs could not be provided easily without established operational systems and processes to routinely collect this data.

Lessons from financial management of fees and charges

1.18 The NAO's 2025 report *Financial management of fees and charges* also identified that government needs to better understand its cost drivers and revenue streams.[6] Poor cost data means that government bodies often fail to set fees correctly, either not recovering costs or inaccurately reflecting them, resulting in instances of under- and overcharging. Our report found that organisations find it difficult to maintain data quality, frequently relying on outdated cost models that lead to inaccurate costing (**Case Study 1**).

Case Study 1

Court and tribunal fees

The Ministry of Justice identified in 2017 that court and tribunal fees had historically been set too high due to inaccurate data on costs, and it has now developed a new activity-based costing model

Public bodies need to know their costs in order to charge the correct amount in cost recovery exercises. Only when departments understand the different components of their costs can they ensure they are providing the service at the lowest possible price. Government bodies use different methods to calculate costs with varying levels of detail. This means some bodies do not have the data they need to understand how their processes contribute to costs. We found examples of where poor data makes it a challenge to set fees accurately for cost recovery.

In 2017, the Ministry of Justice reviewed its court and tribunal fees and identified that they had set several fees too high due to inaccurate data on the actual costs involved. Its cost model lacked data on the volume of cases, and used historical financial data that did not reflect the current ways of working. This meant that it collected more revenue than its costs without the legal authority to do so. In its 2023-24 annual report and accounts, HM Courts and Tribunals Service (HMCTS) stated that it estimated £8.4 million could be claimed in refunds.

HMCTS developed a new activity-based, transactional costing model in 2024, from a 'total volume'-based model. Improving its cost model by introducing more granular data has helped show how much specific stages of the operational process cost the organisation, as well as producing good data to set its fees.

Source: Comptroller and Auditor General, *Financial management of fees and charges*, Session 2024-25, HC 947, National Audit Office, June 2025

6 Comptroller and Auditor General, *Financial management of fees and charges,* Session 2024-25, HC 947, National Audit Office, June 2025, available at: https://www.nao.org.uk/reports/financial-management-of-fees-and-charges

1.19 Our report mirrored the findings from CDDO's work on the 'Top 75' as we found significant variation in approaches across government. Similarly, while the organisations we examined in our work on fees and charges generally had a good understanding of the total costs of providing services they charge for, most did not have more granular cost data, such as detailed costs associated with different stages of their processes or the customer journey. We reported that having detailed data would allow them to better understand their activities and identify opportunities to address any inefficiencies and related costs.

1.20 Fee charging bodies often face individualised, context-specific cost drivers. However, existing central guidance is principles-based and lacks detail. The departments we spoke to were all interested in learning from others and sharing good practice. However, they lacked a clearly identifiable place to turn to for support in addressing the challenges they faced, including on getting reliable data. We looked at the guidance provided to spending departments by the central finance function in other countries, and found scope for HM Treasury to learn from other countries in how it could add more value. For example, case study organisations said they would like guidance to include practical examples at the operational level.

1.21 We also found little consideration of large-scale efficiency savings programmes. HM Treasury's fees and charges arrangements lack sufficient incentives to deliver significant efficiency savings and improve services. Government is missing out on opportunities to deliver efficiencies and share good practice.

Part Two

Benefits and way forward

2.1 This part of the report sets out the benefits of establishing the costs of services. We set out a way forward, including the role of the finance function and senior leaders, techniques for establishing costs and indicators of maturity.

The benefits of establishing costs of services

2.2 Having a good understanding of costs of services will equip departments with better information on which areas to prioritise, where they need to change or invest to improve services through digital transformation, and the deployment of artificial intelligence. It will also help quantify the benefits they will reap in doing so.

2.3 Knowing the areas that drive the cost of a service is fundamental. 'Cost drivers' are those events or forces that significantly determine the cost of an activity. A key element of financial management is the ability to identify such cost drivers and how they can be controlled. Two broad approaches are set out in **Figure 2**.

2.4 By employing basic cost analysis techniques, departments can gain a clearer view of the costs involved in various service activities and identify potential savings. Identifying the actual drivers of cost in current activities provides a basis for understanding the full costs of current services, including those passed on elsewhere.

2.5 Even small steps could provide significant benefits for government by:

- helping to identify which activities involved in providing a service use the most people/resources and take the most time;
- helping to uncover where hidden subsidies mask the true costs of operational services;
- identifying potentially duplicative activity that could be removed or consolidated;
- supporting better-informed decision-making, helping departments avoid choices that may subsequently turn out to be false economies;
- establishing more easily the business case for investment in service improvement based on clear cost information; and
- providing senior leaders with a reliable baseline against which efficiency improvements can be measured and tracked.

Figure 2

Comparison of top-down and bottom-up costing approaches

Top-down approaches are simpler to apply but less accurate than bottom-up

Costing approach	Description	Examples	Advantages	Disadvantages
Top-down costing	Derives costs from a total budgeted or actual cost at a corporate or directorate level, then apportioned across lower-level activities.	Cost per transaction by dividing apportioned costs by the total number of transactions a service provides.	Relatively simple to implement, widely used in the public sector.	Indirect costs may be allocated on the same basis to multiple activities regardless of resource use; can provide misleading data; hard to identify process inefficiencies; insufficient information about where costs have arisen.
Bottom-up costing	Builds up costs by identifying and calculating the cost of resources used to carry out a particular activity.	Activity-based costing, process costing.	Leads to more accurate unit cost estimates; greatest accuracy with granular information and detailed accounting systems; can improve understanding of inputs and identify scope for savings.	Requires means of recording time to link costs to activities; more complex; depends on detailed business processes.

Note

1 More detailed approaches to assessing costs in both public and private sector financial management include: activity-based costing (ABC), standard costing, full costing (absorption costing), marginal costing and life-cycle costing.

Source: National Audit Office assessment

2.6 This will help secure the efficiencies being sought in departmental delivery plans.

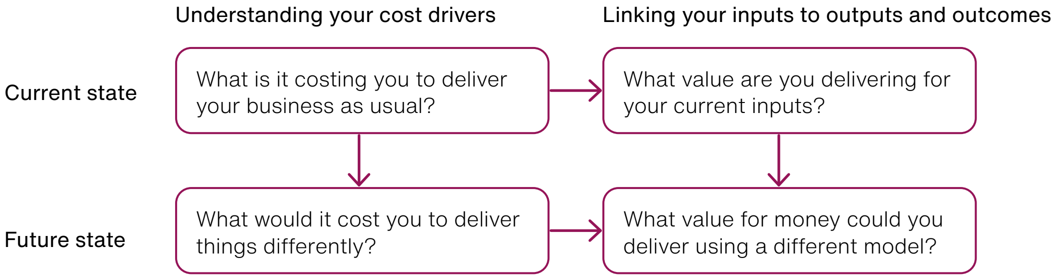
2.7 Effective finance professionals in departments should be able to pinpoint and explain what is driving an organisation's costs and the value being delivered from inputs (**Figure 3** overleaf). This ranges from understanding the basic drivers of current costs, to estimating the costs of delivering services differently, as well as the tougher challenges of understanding and quantifying the value of outputs and outcomes, both now and in the future.

2.8 A finance-led approach supports finance professionals' aim of working with departments to identify opportunities to drive better productivity, make smarter decisions and improve value for money. This approach helps the finance community and departments to work together on service cost reduction.

Figure 3

Key questions an effective finance function will want to answer

An effective finance function needs to understand its current and future costs and their relationship with its inputs and outputs



Source: National Audit Office

Constraints and lack of incentive

2.9 Legacy systems that support complex services contribute to inefficiency because they impede the data collection and analysis needed to provide insights into where productivity gains could be made. A lack of incentives to invest in sizing the scale of the problem, and an absence of specific accountability for doing so, compounds the problem. **Figure 4** sets out an overview of the barriers and enablers.

The way forward

2.10 In other sectors, measuring and managing individual service cost is normal practice and part of the culture. We recognise the difficulties in addressing this situation from the current position in government but there are several approaches that departments can use.

2.11 It is crucial to define the scope of each service and what constitutes its entirety. For example applying for or renewing a passport has defined aspects from beginning to end, such as the initial application (either online or other), the customer query or help desk online function, the physical face-to-face service, the back-office function focusing on complex citizen applications, the physical output function, the systems running and support. Each government service should have a senior service owner who understands all the points of human interaction, the routes taken and the time involved. The service owner should be able to answer basic questions like where are the people spending their time, what are they doing, what is the associated cost and where can it be improved? Commercial organisations commonly organise around different product lines and services to make answering these questions easier. However, the main point is about effective accountability rather than organisational structure.

Figure 4

Overview of cost data acquisition

A wide range of barriers and enablers must be considered when gathering cost data

Barriers to cost data acquisition

- Lack of incentive and specific accountability for identifying the scale of missing cost data.
- Lack of sustained senior sponsorship and relatively little focus on data issues.
- Complexity of services that cut across organisational structures, boundaries and reporting lines.
- Lack of single service owners with accountability for all aspects of an end-to-end service.
- System limitations that inhibit extraction and collection of data in the required format.
- Difficulty breaking out granular information on actual cost drivers from existing wider cost models.

Enablers to support sustained cost centre gathering

- Clear accountability and the provision of specific incentives.
- Sustained senior level sponsorship.
- Centralised support hubs for departments to seek assistance and best practices from.
- Alignment of the scope and boundaries of services with departments' organisational structures.
- Appointment of end-to-end single senior service owners.
- Systems that enable the efficient extraction and collection of data in the required format.
- Time recording mechanisms.

Source: National Audit Office

Role of the finance function and senior leaders

2.12 The finance function wants to play a critical role in supporting success but needs co-operation and desire for change from senior leaders. Interviewees have emphasised the importance of cross-government co-operation led from the centre of government (for example, Cabinet Office or HM Treasury) to maintain productivity focus and traction.

2.13 For a finance-led approach to succeed, it needs the support of senior leaders, the operational delivery profession and other areas that can influence costs. An important first step is for permanent secretaries and departmental senior leadership teams to acknowledge the importance of this area and commit to acquiring costing data. Permanent secretaries have an important part to play in ensuring that this happens and that early progress can be sustained. Effective sponsorship is crucial to lasting success. This means creating the right culture and capabilities, showing active interest and engagement and setting the appropriate tone to foster a stronger demand for better-quality cost information. It also means unblocking resourcing difficulties and maintaining a sufficiently visible focus and commitment to cost optimisation in the face of many other competing priorities. Departments could achieve this by enhancing permanent secretaries' objectives for sound operational resource management to include a more explicit focus on arrangements to ensure robust cost data.

2.14 In the long term, and to achieve these aims, it is vital to build on early momentum by keeping the focus on costs, and to adopt and especially maintain more formal approaches to cost management.

Techniques for establishing costs

2.15 Various techniques can be used to calculate the cost of service, including activity-based costing, job costing, process costing, and standard costing. Some organisations benefit from time recording systems or system analytics that track time and resources against processes and activities. High-level techniques like benchmarking can also be valuable, providing an overall indicator of relative cost and highlighting areas for further inquiry (**Case Study 2**).

2.16 In the short term it may not be practical for departments to adapt their structures or reporting lines around services. Organisations need to realistically consider the time and effort required to maintain an ongoing focus on data collection and maintenance.

2.17 Nevertheless, departments could define the scope and boundaries for all major services and designate a responsible service owner at a high level of seniority. The service owner should have accountability for the full end-to-end service, decision-making authority to deliver all aspects and responsibility for developing, operating and continually improving the service. This was a key recommendation of our 2023 report *Digital transformation in government: addressing the barriers to efficiency*.

2.18 Staff operating multiple processes caused by for example, extracting and merging data to respond to queries are an important way to target those services where complexity and inefficient workarounds of old systems create cost. In our 2025 report on *Financial management of fees and charges*, the staff cost element of the total costs of operating the 7 case study services we examined ranged from 17% to 77%.

Case Study 2

Using costing data to improve efficiency in an acute hospital

External benchmarking data from various sources identified performance, financial and outcome concerns within a particular service at Maidstone & Tunbridge Wells NHS Trust in 2018

Investigations identified a lack of consistency in data recording and incorrect allocation of costs as well as areas of unused capacity that could be rationalised.

A review was undertaken which led to a higher level of confidence in the accuracy of internal costing data. This was used as part of a deep dive process to help the organisation improve service quality, and work towards achieving a balanced financial position and realising the identified potential cost saving and income generating opportunities. A key learning was that it is important for services be able to challenge internal cost allocations, and to see changes being made as a result.

Source: Healthcare Financial Management Association, *Using costing data to improve efficiency in an acute hospital*, May 2018, available at: https://www.hfma.org.uk/system/files?file=maidstone-and-tunbridge-wells--institute-case-study-may-2018.pdf

2.19 Some organisations routinely record staff costs of different activities through time recording mechanisms like timesheets or automated data capture. These provide granular data, but simpler solutions may offer a starting point. Attributing costs at a higher level, perhaps on a sample basis, could be valuable (**Case Study 3**).

2.20 In the future, developments in artificial intelligence may facilitate easier collection and analysis of cost data for monitoring and reporting actual costs and productivity measures. If this happens, a single government approach and consistent tool would likely be the best use of resources.

2.21 In the longer term, departments may wish to consider the following to establish and embed more formalised arrangements:

- setting objectives for all in service operations and finance to monitor and report on costs;
- requiring services to map out their processes;
- incentivising the improvement of service processes and cost reduction while maintaining quality of service, as assessed by the citizen or their proxies; and
- adopting a proven costing technique like activity-based management, which aims to generate management information on an organisation's productivity for its core services. Inputs are attributed to activities based on the direct costs plus allocated overheads and capital costs.

Case Study 3

Use of time diaries to estimate time spent on activities

Time diaries are a simple but effective way to understand costs in an organisation

The Office for National Statistics has official statistics in development that use time diaries to estimate the time spent by public sector workers on a range of activities. On a sample basis, participants are asked to maintain a diary to track their time in 5- or 10-minute blocks for any two days on which they worked within a set window of 10 days covered by the survey.

While it is not the purpose of the survey to drill down to the level of specific cost drivers in individual organisations, it is an example of a simple but effective approach and could be adapted by individual organisations to obtain an order of magnitude of where costs arise in different processes comprising an overall service.

Source: Office for National Statistics, *Time use in the public sector, Great Britain: further analysis, February 2024*, October 2024, available at: https://www.ons.gov.uk/economy/economicoutputandproductivity/publicservicesproductivity/bulletins/timeuseinthepublicsectorgreatbritain/furtheranalysisfebruary2024

2.22 Figure 5 sets out a maturity matrix that departments can use to help them identify how mature they currently are and how much they need to address.

2.23 We set out a list of questions that an organisation can ask to assess its own ability to identify cost information at a more granular activity level. We emphasise that this is not about understanding the overall quantum of costs, but about having a more granular understanding of where they arise in individual activities that collectively make up an overall end-to-end service.

Figure 5

Indicators of maturity in different areas of cost assessment

The maturity of an organisation's understanding of its costs can be assessed against a range of factors

Area	Indicators of low maturity	Indicators of moderate maturity	Indicators of high maturity
Purpose of costing activities	Purpose not clearly understood or agreed within the organisation; costs not used to inform decision-making at a process or service level.	Some sense of purpose but not to a significant extent or depth; only high-level cost information used to inform decisions.	Purpose is clear, understood and agreed; service and process-level costs are used to inform decision-making.
What is to be costed	No clear understanding of activities, processes, outputs or outcomes to be costed; complexities not considered; resources not identified and defined; costs considered at high level with simple allocation.	Some understanding of activities, processes, outputs or outcomes to be costed; complexities and resources broadly identified; some recognition of process-specific cost drivers.	Activities, processes, outputs or outcomes understood; resources identified and defined at a granular level; cost drivers identified at the process level.
Data collection	Data requirements not identified; complexities unknown; systems do not surface information or enable analysis.	Data requirements identified but complexities not fully addressed; some data collection and analysis, but incomplete or requires manual effort.	Data to be collected known; complexities identified and addressed; systems enable data collection and analysis at the right level of detail.
Data quality	Impact of inconsistent, inaccurate, or poor-quality data not understood or allowed for.	Some understanding of the impact, but difficulties not overcome.	Impact understood and allowed for.
Data classification	Cost classification does not reflect actual categories needed for analysis; fixed costs allocated on a top-down basis using broad assumptions.	Limitations understood but not addressed; understanding of how allocation could more fairly reflect activities, but not done.	Costs classified by category at the needed level; fixed costs allocated in direct proportion to underlying activities.
Measurement	Few relevant costs identified; monetary value not assigned to resource utilisation; level of precision not understood or agreed.	Some understanding of relevant costs; some monetary value assigned; some understanding of precision required.	All relevant costs identified; monetary value assigned; level of precision understood and agreed.
Data validation	Robustness of data not tested or validated.	Some attempt to test and validate, but issues persist.	Robustness tested and validated.

Source: National Audit Office

2.24 We would expect these questions to be most useful to the finance function working in conjunction with those responsible for operational delivery. They will also help those charged with governance to probe how well organisations have a detailed understanding of their cost drivers and are using it to seize opportunities to identify and realise efficiencies.

2.25 It is important to understand the purpose of costing activities and what is to be costed:

- **Purpose of the costing activities**
  - Is the purpose of the costing activities clear, understood and agreed?
  - Will the costs obtained be usable in decision-making (for example, investment, performance management)?
- **What costs should you identify?**
  - Can the organisation identify the cost drivers?
  - Can the organisation identify and define the resources to be costed?
  - Can the organisation identify the outputs?
  - Does the organisation fully understand the activities, processes, outputs or outcomes to be costed, and their complexity?
  - Does this include wider intangible costs?

2.26 The following issues relating to data should also be considered:

- **Data collection**
  - How will the data be collected? What problems could be encountered in collecting or collating costs?
  - Is the department's accounting system structured in such a way that data can easily be extracted?
  - Have the strengths and drawbacks of different data collection methods been considered? (**Figure 6** overleaf).
- **Data quality**
  - What is the impact of inconsistent, inaccurate or poor-quality data on performance measurement?
- **Data classification**
  - Will the organisation be able to classify costs by category?
  - Does the organisation know how it will apportion fixed cost?

- **Measurement**
  - How will resources be measured to be reliable and valid?
  - Has the organisation ensured all relevant costs can be identified, including those arising outside the process itself?
  - How will the organisation assign monetary value to resource utilisation?
  - What level of precision is required?
- **Data validation**
  - Will the organisation be able to test the robustness of the cost data?
  - Can the cost data be validated, for example by reference to audited data?

Figure 6
Potential data collection approaches for cost drivers

Different data collection approaches present a range of advantages and disadvantages for organisations

Method	Strengths	Drawbacks
Process efficiency studies	Strong validity of data; good for detailed data (for example, measuring activities in minutes).	Difficult to do at scale; difficult to consider individual processes in isolation; requires time and resources.
Quantification of numbers of staff	Simple measure of how many people are required to support processes; relatively straightforward.	Identifying/apportioning time where the same people support multiple services (for example, call centres).
Time tracking	Provides a large data set; data can be categorised to facilitate analysis.	Subject to bias; time taken to complete; timesheets alien to public sector culture.
Estimation workshops	Low time commitment; good approach for higher-level costing (for example, measuring activities in hours).	Assessments can be subjective.
Analysis of existing data	Relatively low time commitment; draws upon existing data sources.	Data not always in a suitable format; rarely a single 'version of the truth'; 'devil in the detail' not always clear.

Source: National Audit Office

Appendix One

Our scope and evidence base

Our scope

1 We prepared this report to highlight the need for government to get better information on the costs of managing and running departmental services in central government, and to suggest a way forward.

2 Our reports on *Challenges in using data across government* (2019), *Modernising Defra's ageing digital services* (2022), *Digital transformation in government: addressing the barriers to efficiency* (2023) and *Financial management of fees and charges* (2025) all identified the systematic and long-standing difficulties in obtaining granular cost data at a level of detail that would identify cost drivers. We therefore chose to focus on how this might be addressed, rather than undertake a more specific first-hand analysis of individual services, as we do not believe this would have added significant value to our overall conclusion.

Our evidence base

3 We reached the conclusions contained within this report based on work undertaken between January and August 2025.

Document review

4 We reviewed a range of published and unpublished documents to inform our study. We reviewed the documents between January and July 2025. These included the approach to the 'Top 75' programme and the Digital and data roadmap 2022–2025 closure report.

Interviews

5 We conducted fieldwork in the form of internal meetings with NAO experts and external discussions including:

- Central Digital & Data Office (now part of the Government Digital Service);
- HM Treasury and the Government Finance Function;
- HM Revenue & Customs;
- Home Office and Driver & Vehicle Licensing Agency; and
- Representatives from the private sector.

6 The topics we covered included the main issues with a lack of costing data and its implications for higher aims in terms of effective use of resources and what could be done to resolve the situation.

Analysis

7 The costing approaches and maturity model are based on internal and external sources, including:

- National Audit Office, *Demonstrating Value for Money: A guide to costing in VFM audit;*
- National Audit Office and Chartered Institute of Management Accountants, *Delivering value and accountability: How finance can help;* and
- Department for Communities and Local Government, *Delivering Efficiency: Understanding the Cost of Local Government Services.*

Case studies

Case study selection

8 There are very few publicly available examples of good practice in costing. The case example of court and tribunal fees is based on the example in our report *Financial management of fees and charges.* The case examples on use of costing data in an acute hospital and on time diaries to estimate time spent on activities are based on a search for relevant published literature.

This report has been printed on Pro Digital Silk and contains material sourced from responsibly managed and sustainable forests certified in accordance with the FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation, which ensures that they have effective procedures in place to manage waste and practices that may affect the environment.

National Audit Office

Design and Production by NAO Communications Team
DP Ref: 016869-001

£10.00
ISBN: 978-1-78604-631-4