



**PACAC (Public Administration and Constitutional
Affairs Committee)**

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13th May 2020

Dear Gareth,

Note of meeting between the Committee and the C&AG

Thank you for meeting with the Committee on Tuesday 5 May about major projects and accounts. It was also good to hear that the NAO is able to continue its work in supporting Parliamentary scrutiny during the current crisis. We will pay careful attention to your forthcoming report on Government spending on tackling Coronavirus.

I would be grateful if you could write with a short note of the data you have on progress with reducing the Whitehall estate, as you promised in the meeting.

I enclose a copy of the note that staff took of this meeting.

Thank you again

Yours ever,

William Wragg MP
Chair, Public Administration and Constitutional Affairs Committee

PUBLIC ADMINISTRATION AND CONSTITUTIONAL AFFAIRS COMMITTEE

Note of virtual private meeting

Tuesday 5th May 2020, at 10.00 a.m.

Gareth Davies, Comptroller and Auditor General

Attendance: William Wragg (Chair), Jackie Doyle-Price, John Stevenson, Karin Smyth, Rachel Hopkins, David Mundell, Tom Randall, Lloyd Russell-Moyle, Ronnie Cowan, Mr David Jones

Note: this meeting was held on Microsoft Teams and it has not been possible to broadcast it or transcribe it fully. This is a summarised note of questions asked and answers given, it is not a verbatim transcript.

Chair

Welcome to the Comptroller and Auditor General for his first appearance before this Committee.

What are your priorities for your 10-year term?

Gareth Davies

The NAO has held a strategic review to set its priorities over the next five years. It was decided that ten years was too long a period to plan for, so there will be two 5-year planning periods. The first five-year plan was completed but now needs to be updated in the wake of the pandemic. A public summary of the strategy will be published on 1st June. Three priorities have been identified. They come with a fresh focus and a level of ambition. First, on improving NAO support to accountability and scrutiny activity, through financial auditing, government financial reporting, the usefulness of the information provided. A modernisation programme is underway on financial auditing in response to the quality agenda coming from the Kingman review. Second, improving the impact of the NAO's work on value for money. It is not enough to describe the problems; the NAO must try to have an impact of the achievement of the value for money objectives. Recommendations in NAO reports must be practical and effective and, if the problem identified keeps recurring, the NAO must find alternative ways to have an impact. Third, making our knowledge more accessible. This was the biggest area of feedback from stakeholders. Practitioners said they needed to read too many of the NAO's reports in order to extract the practical learning from them. There will be a new stream of reports with lessons learned in different themes, like project management and contracting, to make the learning more useable.

Chair Our Committee is particularly interested in analysing programmes before the mistakes happen, so learning the lessons from your reports is particularly helpful.

What have you learned in your first 9 months as Comptroller and Auditor General?

Gareth Davies Before I started, I was aware of the breadth of the role, covering all departments and public spending in general. I have been impressed by the coverage provided by the NAO, the strength and depth of expertise across many areas, and the specialism in some areas. The technocratic approach of the NAO, based on evidence and expertise, is powerful. Select Committees bring the power of political scrutiny and accountability, especially the Public Accounts Committee, and the two approaches combined are very powerful and have been extremely effective. We were thinking about that in the strategy review, how we make the most of that potential. The question is why so many mistakes made by the public sector come back, and that is what the new NAO strategy focusses on.

Chair ***How do you view your relationship with this Committee?***

Gareth Davies I am very receptive to invitations such as this to give evidence and happy to liaise with PAC and ensure the work with each Committee dovetails. The NAO is happy to support Committee inquiries, within the limits of finite resources.

David Mundell ***Our predecessor Committee found that the information in departmental annual reports and accounts did “not enable effective Parliamentary scrutiny”. Would you agree with that statement?***

Gareth Davies Broadly, yes. My passion is making sure the reports and accounts play the role that they should. First of all, giving information that be relied upon and interpreted, and presented in a way that can allow you to engage with what’s really happening under the headline numbers. There is so much potential to improve. The numbers themselves have come a long way and now meet international financial standards. The technical accuracy is a lot better than a few years ago. Now, the issue is useful presentation of the information, how well thought through the information is in terms of how it is presented, how honest they are about the risks being managed, and the financial impact of those risk. Some departments take a tick-box approach to reporting rather than providing genuinely useful information for the reader, which makes for dull reading. It is difficult for politically led organisations to be completely

frank in their presentation of information but it is important to try to achieve this; the purpose of accounts is to give a true and fair view.

David Mundell

Your letter to the Committee says that you are tracking progress in financial reporting. What have you found in doing this and how are you assisting departments in improving the information they make available to Parliament?

Gareth Davies

Every year, after the main audit cycle we will take stock and distil the learning into presentations for audit committees across government. We share that feedback directly. This is about encouraging good practice as well as calling out poor reporting. Organisations which have done a good job can enter a competition for an award. Last year it was won by Great Ormond Street NHS Trust. It's a twin track of highlighting area for improvement and rewarding success.

David Mundell

Your letter also mentioned that you can report issues of significance, such as Value for Money concerns, in the financial statements. How often do you do this, and do you think this should be something you are required to do?

Gareth Davies

I am required to consider this with every account I sign off, whether there is a further report I should be making. I started in the job in June 2019 by signing off 370 government accounts. I am now standing back and reflecting, and I want to make more use of separate reports. For example, last year there was a significant loss on IT project that was buried in accounts so we made separate report to highlight that fact. Even where there are disclosures in the accounts we have drawn the public attention to it because they are easy to miss. There is scope to do much more of this.

David Mundell

What will the NAO do differently, compared with previous years, to ensure that the accounts meet the purposes of annual reports and accounts drafted by our predecessor Committee and now incorporated into the financial reporting manual?

Gareth Davies

In normal circumstances we would be following up changes agreed by HM Treasury and ensuring compliance. Events have overtaken, and the response of the Treasury to Coronavirus has been a very significant reduction in the requirements for the narrative part of the annual reports and accounts this year. There will be much less material in the narrative sections. The financial statements will still be produced to international financial reporting standards. It is a practical measure to reduce pressure on departments. The

intention is to return to fuller reporting later, which is an opportunity to rethink the requirements, incorporating previous PACAC recommendations. But we will also consider what we have learned this year in terms of the requirements for the front part of accounts, about what nobody missed when it was taken out, and what the opportunity is for new clarity.

David Mundell

What is the right balance of narrative and numbers?

Gareth Davies

Both are very important. The narrative must pick out the areas of genuine significance and explain significant financial risks. Treasury have made a sensible call in the circumstances and it is interesting to see how that is actionable and what we can learn.

Rachel Hopkins

We know that Coronavirus makes it harder for departments to produce their annual reports and accounts. What reassurance can you provide that Parliament will have the information needed to examine performance and expenditure this year?

Gareth Davies

The NAO will be carrying the audit on the same rigorous basis as we always do, there is no such thing as a partial audit. The real impact will be on timeliness. HM Treasury told departments that the usual deadline for reporting, which is 1st June, has been moved to the end of September. Some departments are sticking to the original date – we are working with them to achieve that - and others have already said they would meet the September deadline or not report until October or later (that includes some big departments). The audit opinion dates will be more spread out than usual. This reflects the differential impact of Coronavirus on different departments. Some have diverted staff to making urgent payments, for example. The standard of auditing by the NAO will remain the same.

Rachel Hopkins

What will the NAO do to support parliamentary scrutiny of the Government's handling of the crisis after we are through the worst?

Gareth Davies

We have started to do this although must be careful not to get in the way of departments providing the operational response to the pandemic. We are pulling together a factual summary of major spending commitments Government has entered into in response to Coronavirus. Our first report will be a factual summary of those spending commitments. We will then use that as a platform of a risk-based programme of work to scrutinise response. This includes health spending, NHS supply and procurement and the economic response. Huge sums have been committed to the Job Retention Scheme,

Universal Credit and business loans. There has been a very rapid scaling up of activity by departments and they have had to think about their risk appetite, and speed has been of the essence. They have had to compromise on normal checks and there will be a cost in terms of fraud and error. That process has involved setting a realistic risk appetite signed off by Ministers and audit committees. This will be revisited when time allows, and controls are reasserted.

Rachel Hopkins

Is there anything particularly concerning to you about how the Government has handled Coronavirus to date? Where should Parliament focus its scrutiny?

Gareth Davies

We are guided by Parliament's priorities and in active dialogue. Our own view is that NHS expenditure, procurement, contingency planning are all areas for learning to prepare for a future pandemic. A core thing for government is learning the lessons, and it is unforgivable not to learn the lessons. We must work with government departments includes risk-based planning and the optimum use of public funds for risk mitigation for events that are perceived to be unlikely to happen. There has been a relative lack of grip on the outcomes of the pandemic on the social care system. Problems in social care have been a theme of NAO reports, for example the potential impact on the sector of a no-deal Brexit. We identified social care as the riskiest setting if there were issues with medical supplies in the event of a no deal Brexit.

Mr David Jones

Let's turn to the management of the Government major projects.

What is your overall view of how well the Government manages its major projects?

Gareth Davies

This has been a big feature of my first year, with big reports from us on HS2, for example. In the last couple of weeks we published our first report looking at the Restoration and Renewal Programme in Parliament, although uniquely it is not a government project but a Parliamentary project. So I have had what feel like an early immersion into the world of government major projects through those report and of course I've drawn on past NAO work. The first lessons-learned report from the NAO will be on major projects.

The Government's record in this area is not good. The interesting question is what lies behind that and what can be learnt to minimise the risk of those problems occurring in the future.

The repeated messaging from the NAO has been that there is a lack of clarity in the scope and objectives at the outset of projects and, conversely, a focus on excessive accuracy of cost estimates. For large complex schemes, like HS2, any cost estimate must be a very broad range because the level of uncertainty in what is needed to complete the project is so high. That is a loud message coming from the private sector to government. Take the oil industry, for example, when they set out to develop an oil field they have a very large level of uncertainty about the cost. They can only narrow that down as they get better information about what they are dealing with. That applies to HS2 and it applies to Restoration & Renewal in Parliament as well. Becoming attached to a headline number and delivery date, neither of which turn out to be deliverable when better information is available, is a real problem.

I understand why there is a demand for clarity right at the start. But I think officials have to be much more robust in their advice at the outset. It's important to have a range at the outset, so we can see whether things are affordable in the first place. We need to get better as a country at using ranges at the outset and seeing them narrow as the project progresses.

I would also raise the rapid turnover of senior officials responsible for projects. This is something you wouldn't see in the private sector to this extent. If you've got the right person leading a project you hang on to them and incentivise them to complete it to a high standard and within budget. It's much harder for the Government to do that, particularly with the culture in the civil service of rapid turnover in key roles. There have been attempts to address that issue but these have only been partially successful.

Mr David Jones

To what extent are you concerned that almost 1 in 3 projects in the Government's major project portfolio have a delivery confidence assessment of red or amber/red, meaning it is doubtful. What is your view of that?

Gareth Davies

First I think it's good to have robust assessments like that available for Parliament and the public. That transparency and rigour is really important. I would rather know about problem projects when you can still do something about it, rather than it be repressed or not available, that's the first thing to say.

Secondly, it's too high of a proportion to be in that state. No Business which had to manage within its levels of affordability would be able to sustain projects of that kind. I appreciate Government is dealing with exceptionally large and complex projects that would be very unusual for a single private

entity to take on, so we're not comparing exactly the same things. Even so I think tolerance of uncertainty around project delivery is too high. It is good that we have identified risky projects, but we need to get those ratings into a better position. There's a huge amount of work going through the IPA and other parts of the government machine but it's still not where it needs to be.

Lloyd Russell-Moyle ***You mentioned the turnover of key staff in projects and the civil service process of rotating staff around. In your view, does that happen because the reward and recognition isn't sufficient or are there factors around culture and management style that mean people move around quickly? Is it a cash and finance problem, or is it a culture issue?***

Gareth Davies The balance will vary from project to project and person to person. There are people with those skills who are motivated by contributing to a really important public project, so it isn't just about pay to be able to attract good people. I think the Government has demonstrated that it is possible to get highly qualified and effective people by paying a little more than a normal civil service rate but not matching a private sector rate for such a job. For those people, it is often more important to have the confidence that they will be allowed to do their job effectively and have the decision-making capabilities to operate successfully, backed up by transparency and accountability to Parliament. I think it is important to support high quality people doing a good job rather than bogging them down in non-critical processes. People will do these jobs if the job is sufficiently interesting and important.

Ronnie Cowan ***Your letter says that ranges might be a more effective way of costing projects. When someone is putting a bid together – for example for a bridge costing £10 billion - if they say it'll cost £10-£15 billion do they have to specify that the extra £5bn is, for example, the cost of steel, manpower or concrete? Or do they just have to say £10-£15 billion?***

Gareth Davies We would expect someone to explain why the range was necessary and what factors lead to the uncertainty that result in the range. Crucially, we want to at what stage of the project they expect to get more information on those factors so they can narrow that range. By describing the need for people to be realistic about a range, we're not saying people should make it so broad that they can never be accountable for delivering. It's about saying, for example, "we've estimated this range because we think we've made sufficient allowance for the risk we, for example, discover asbestos. If we do find asbestos, we'll be taken to the higher end of the range and then we can firm up the figure." We want as much information for the basis of the estimates as

possible and then clarity on when they think they can narrow the range based on better information.

Ronnie Cowan

What happens if we are building the bridge, and the costs spiral out of control? Haven't we gotten projects we can't get out of in the past, so we chuck good money after bad?

Gareth Davies

This is why I think the range thing is so important. If your costs exceed even the top of the range then something has gone wrong in your planning process. Of course unexpected things happen, such as Covid-19, but if it is just a case of providing an optimistic cost figure in the hope the project will be approved, and the real figures emerge later when there is no option but to be transparent, that is what is unforgivable.

Ronne Cowan

In your letter you suggested that some bodies feel under pressure to deliver on unrealistic timescales, would you expand on that to include unrealistic costs?

Gareth Davies

We're not pretending this is a simple thing to get right. There is a very legitimate and proper role for politicians to set ambitious deadlines to galvanise improvements in the system that would otherwise be too slow. I completely understand the need for ambitious targets and for politicians to set a demanding pace.

But it's where that dynamic meets engineering reality, for example. It needs to be a very robust process of saying "for that deadline, this is the risk you would be running." Quite often there is a time and cost trade off so it may be possible to meet a deadline at a significantly higher cost. Sometimes it is just not attainable. I would cite Crossrail as an example of how this can go wrong. That had a very clear deadline set with confident reporting in the early stages about the likelihood of hitting that deadline. Then there was complexity with lots of different parts of the engineering project, particularly the hard engineering of the tunnels but then fitting the signalling system and ensuring it operated successfully with the train operating systems. That's where the integration of all these elements caused the very significant delays with Crossrail.

Ronnie Cowan

These are all known factors, we've done this before. We like to think we know how to build railroads; these shouldn't be unknown factors. Presumably people were doing this knowing how much it costs?

Gareth Davies

I think there was some ambitious decision making at the outset of that project but also some unwise decisions. For example, allowing a high level of bespoke systems for particular parts of this railway with different decisions being made by different stations. At the time there was a significant case made for those decisions, but in hindsight, it proved to be really unwise. We have reported separately on Crossrail, there are a lot of lessons to be learned there.

It isn't only in heavy engineering projects in which this question of "do all these component parts operate together successfully, or have we allowed complexity to confuse matters and extend the timetable." There are plenty of defence examples where weapon systems haven't operated as expected with the ship or the plane and there's a huge amount of learning from those areas.

Ronnie Cowan

Do you think it is the case that people are bidding cheap to get the contract in the first place?

Gareth Davies

As a Government client you have to be aware that there's a risk your bidders will be doing that. We have documented examples in outsourced contracts, for example, where the bidding war between suppliers has driven matters to a point where the contract can't be delivered successfully and has to be unwound after the fact. You may be initially delighted at the low prices you're being offered but if that is not sustainable and you have to come in part-way through a project and rescue a failing service then it's a false economy. Government clients need to be alive to that risk, and the skill of strategic procurement is making these judgements successfully.

Ronnie Cowan

You mentioned discount rates favour private investment, can you explain that in more detail?

Gareth Davies

This is to do with how different options are appraised. I know an area of interest for the Committee is the HM Treasury Green Book and the basis on which the option appraisal is carried out. We have observed that the way those rates are applied can take you towards options involving private investment. Those might be the right options but we're not always sure that it is a sensible application of the discounting process. It's a technical area but an important one if it means that a particular kind of option is likely to be favoured even where the economics of the option don't support it.

Tom Randall

The Government's Major Project Portfolio is expected to deliver £657 billion in benefits. How confident are you that it will deliver those benefits, given what the NAO has already seen?

Gareth Davies There is a robust system for deriving benefits, but it is clearly a dynamic figure because each project is subject to changing risks throughout their lifetime. We've seen many projects where the predicted benefits haven't materialised by the end of the project. It is good practice to adjust the benefits you're expecting to realise if things have changed. We've seen some quite well managed changes to predicted changes as long as they're matched by reductions in the cost of the project. It's an important number to keep track of in the life of each project, as well as taking an overall view. We think there is a robust system for deriving benefits, but there are lots of examples where predicted benefits haven't materialised.

Tom Randall ***Do you think that sometimes the promises are overstated and that benefits are unachievable but promised to get the public on board?***

Gareth Davies Yes, and there is a well-documented example from our HS2 report in January. In order to close the gap between the emerging cost of the project and the available funding, some efficiency savings were estimated but were never backed up by detailed operational plans to achieve them. That's an example of an overoptimistic approach to estimating savings, but the same principle applies to benefit realisation. That's why I think the revision of the Green Book is such an important topic for Government because it offers an opportunity to see if we're counting the right things. One of the Government's aims it to "level up" geographically around the country; there's a strong suspicion that the previous way of evaluating benefits exaggerated benefits for the South and underestimated benefits for the North. There is also the issue of progress towards the Government's target of net zero carbon emissions and how you take that into account in estimating project benefits and disbenefits.

I think there's a lot to get right in reassessing how Government appraises projects and improving the assessment of benefits is an important part of that.

Tom Randall ***Do you think we will be measuring these things more acutely in future?***

Gareth Davies We are still learning about a more technically accurate benefit estimation, and how you avoid optimism bias as a systemic risk.

Tom Randall ***If a project is completed without the projected benefits, who is responsible?***

Gareth Davies

Clearly there is a Senior Responsible Owner for every project who should be held to account for the lifetime of the project. They will be reporting to an Accounting Officer in the normal Parliamentary system so, as PAC does, Committees can call the Accounting Officer to give evidence after the fact and hold them to account. Clearly, Select Committees can also take evidence from Ministers.

Tom Randall

What are your thoughts on how we perform compared to major industrialised countries running projects like we do? Are we better, worse, or about the same?

Gareth Davies

The NAO is going to make more use of international comparisons in a more systematic way. The UK is far from alone in having the major project problems we have. Defence projects are a rich field of evidence. The big challenges are things like fighter jet programmes and large procurements of equipment. Those are shared across government systems, and there doesn't seem to be a perfect way of procuring such things with a long lead in time and in an uncertain environment like defence capability. We share challenges with a lot of other countries. As well as the NAO making better is of international knowledge, we are keen to encourage departments to tap into international expertise. That varies a lot but if we get more systematic in our own approach we can support departments there.

Chair

Verify is being used to process universal credit claimants at the moment. A recent NAO report questioned whether verify was value for money, particularly with the downgrading of the value added by 75%. There was a statement by the Rt Hon Michael Gove last week saying that they are going to fund it for a further 18 months. Do you think this represents value for money?

Gareth Davies

The policy question is up to Ministers, but we have looked at the evidence on performance so far. The original business plan was extremely over optimistic and not deliverable. There is clear demand for a secure, interoperable system across government for people to verify their identity and access systems like universal credit. But putting it into practice requires coordinating demands across departments. How do you get sufficient compliance to a government wide approach to deliver a business case that relies on take up? Some departments have bought into it and it is central to the systems they operate, but others haven't. Government has struggled to generate the throughput necessary, this been a very difficult business case to deliver, and it is hard to conclude that it has delivered value for money.

Jackie Doyle Price ***We need to make sure that reviews give genuine challenge about value for money. Have you seen any examples of projects that shouldn't have passed through early Gateways but did, or which required more challenge?***

Gareth Davies The auditor has the benefit of hindsight so we have to be careful not to sound wise after the event but where a project has been given a green light and has turned out to have had problems, we ask what was missing from the review that allowed it to progress. There has been a lot of focus on that learning and while we won't ever have a perfect review system, that learning has strengthened the project assessment at the Gateway stages. A significant challenge that will always remain is giving an unwelcome message to Ministers who are set on a particular timetable. That always going to be a challenge for any review mechanism because, quite rightly, Ministers see their role as challenging lack of delivery and make sure that people up their game as necessary. Sometimes it is going to be necessary to say "that is not deliverable on any reasonable cost basis and if we are going to achieve value for money this is the earliest we can complete the project". That is still one of the major challenges in the system.

Jackie Doyle-Price ***Do you think Accounting Officers ask for letters of direction from Ministers enough when value for money issues have been raised?***

Gareth Davies In normal times I think there is scope for greater use of those directions, because the process itself, done well, has value. It's not just a back-covering exercise. It is a genuine assessment of the value for money considerations against the policy considerations and that is a balance that only Ministers can strike. We're talking in a time when there have been more Ministerial directions than ever before in a concentrated period for obvious reasons. People are having to make very quick decisions on large spending commitments. We are in double figures on Ministerial directions in relation to the pandemic. That is reviewing that these things have a purpose and a value and could be used better in normal circumstances.

Jackie Doyle-Price It focuses Ministers minds when it comes to accountability, which is the most important thing so I'm all in favour of them.

The NAO reports the same issues with Government projects over and over again. Why do you think we keep making the same mistakes?

Gareth Davies

I think Ministers want to deliver and often they are trying to deliver very complex things and trying to gloss over some of that complexity can lead to problems. Also, Government has only recently strengthened its approach to professionalising its functions. This has been a significant agenda for John Manzoni in his time as Chief Executive of the Civil Service. I think good progress has been made in several of those functional areas. We're only starting to see the benefits of that recently and others still have some way to go before they are maturing at the same rate. But I'm sure that's been a very valuable initiative and it is delivering benefits. For example, all Permanent Secretaries have access to professional procurement advice at a senior level in their department in a way that they didn't before. The gifted amateur approach to complicated procurement is no longer the norm and professionalising that function has been a big step forward. I think we are only starting to see the benefits of that effort but we're very keen to support it and those networks will be a key audience for the lessons learned work that I described earlier on. Rather than just reporting on failed projects, we must inject the lessons from our work into the bloodstream of the Civil Service and to those delivering the projects.

Jackie Doyle-Price

You said in your annual report that 94% of NAO recommendations are accepted. Does that indicate that NAO recommendations aren't as effective as they might be because they keep reporting on the same weaknesses in the system?

Gareth Davies

I think some of the time they are spot on and they say exactly what needs to be said and they do make a difference. But I don't think we've got it completely right on recommendations. If we had, these things would not be as common as they have been. We are challenging ourselves on making sure that we are not just addressing the symptoms of an issue but we are getting to the root cause of why something has happened in the way that it has. We also want to make our recommendations in a different way, so as well as the formal recommendations in our reports and in the Public Accounts Committee reports, we are going to tackle our lessons learned work in a different way. People learn lessons in different ways and they don't always pick up the right lessons from reading a critical report on a failed project but if we can take people through the key stages and show how to apply the lessons that others have learned the hard way and get things right first time, in a slightly less confrontational and formal style, I think there is mileage there. But we also want to engage directly with civil service training schemes and explain our findings to those being trained in particular disciplines. We are refreshing our approach and making sure that we don't just stick to one

way of making recommendations and expecting it to be successful every time because it's not.

Jackie Doyle-Price

The whole decision-making process in the Whitehall machine is about clever intellectuals considering policy issues in a very intellectual and philosophical way. Culturally, that doesn't always lend itself to sensible commercial decisions about delivering major projects. Is cultural change really starting to happen? Until it does, will we ever be good at this?

Gareth Davies

I've only been working closely with departments for the past year but talking to colleagues and reading NAO reports I think there has been a change in culture. I recognise culture you describe, but I deal with a lot of senior people who are not steeped in that way of thinking who don't just value clever policy above delivery and I think the current emergency has exemplified some of the best of that as well as highlighting significant problems. For example, the way in which HMRC has been able to gear up to respond to the job retention scheme claims that came pouring in only a week or two ago. That's a department that has been able to operationalise a huge scale up and do that in a way that hasn't involved throwing a lot of money at a commercial partner for uncertain benefits but has done a lot of that with its own recourses. We haven't audited the detail of all of this yet, and we will, but the initial signs are that there has been highly effectively operational scale up and some bits of the civil service have shown up some bits of the private sector in the way they have been able to respond in a very agile fashion. I think some of the culture is changing and you can see some of the effects of that already but there is a long way to go.

Jackie Doyle-Price

Coming back to the issue of recommendations and making sure they do have teeth and make a difference, what will you do to improve the NAO's record on that?

Gareth Davies

In the strategy I mentioned we are strengthening our follow-up arrangements. Through the Treasury record of acceptance process, we are making sure recommendations lead to real change rather than just being implemented on paper. Secondly, we are going to be working more directly with the audit committees of each department and arms-length bodies. We already work closely with them on the financial audit and we are going to be tracking their implementation of our value for money recommendations more rigorously through those audit committee procedures. This is where it makes a real difference with non-executives holding managers to account for the actions they have taken. There has been a sense that NAO Value for

Money reports don't fit into that environment of audit committee scrutiny of implementation. The best audit committees already consider NAO Value for Money reports, so we are making sure that is consistently implemented across departments.

Karin Smyth

I just want to echo those points about following up Treasury minutes. Following up a recommendation through a Treasury minute and then perhaps taking that to a Minister helps. Often the Minister would have no idea where this is coming from. Then tracking that action as a parliamentarian is enormously difficult. I accept that the main task is for civil servants to learn the lessons, but as a matter of public scrutiny, it was hard for parliamentarians to track. We need to find a better way to do this so I very much support the NAO's efforts.

Gareth Davies

I know that Meg Hillier as the Chair of PAC really wants to make sure that process leads to real change.

Chair

Your letter states that departments should be reporting on project data in their annual reports. What sort of thing do you expect to see? There are a couple of fairly obvious ones, such as HS2 for the Department of Transport and Trident for Defence. Is that the kind of thing you would expect to see?

Gareth Davies

We're not encouraging the further cluttering of reports with more tables and charts, which obscure the most important issue. We are talking about the most materially significant projects and encouraging a greater level of openness about the risk inherent in those projects and how it's being managed.

Chair

Do you think that would add to a sense of Ministerial oversight if they felt that keener responsibility for those major projects that were in their departments' reports?

Gareth Davies

I think that would help, yes. I'm remembering the PAC hearing for our latest report on HS2 - members of the committee were looking at the most recent annual report and querying how open HS2 Ltd had been on significant issues around cost and delay. Used properly, these reports are a really powerful tool for accountability.

Chair

You also mentioned that an accounting officer's assessment should be updated if a programme departs from what was initially agreed, but it

appears that requirement is not always adhered to. What's your role in ensuring compliance and how have you executed that?

Gareth Davies

We are notified where there is an accounting officer assessment of that kind, and so is PAC. The next step is for PAC to take evidence, for example, if there has been a long delay in updating an assessment or if an update is received that the Committee feels does not fully explain a key issue that needs to be addressed. So the NAO's role is to support the PAC in holding the accounting officer to account for those assessments. We don't go hunting for issues that should have been subject to an assessment. Clearly, if something is very significant we will ask for the assessment and if there isn't one we will ask why an assessment hasn't been produced.

Chair

Our predecessor Committee said that project information in the accounts lacked credibility because it was signed off by the Permanent Secretary rather than anyone external. Should the NAO be auditing project information in annual reports?

Gareth Davies

Our job is to check that everything, including in that narrative part of the accounts, is consistent with our knowledge. Where we have already done work on a project and we know that what's described is not a full picture, it's our role to pick that up and make sure it has changed. We don't do an original audit of all the numbers in the front part of the report. That wouldn't be practical because of the sheer scale of the work that would entail in time for certification of the accounts. I'm content that the approach we have is the right one: asking if in all the narrative explanation of the delivery of major projects, is it consistent with the NAO's knowledge of performance? We will flag up areas that need to be strengthened or corrected but the cost implications of doing an original audit of every number in the narrative part would be too high.

John Stevenson

You will be aware of the Government's proposals for substantial capital investment for the next few years and you have implied that the way department's calculate potential future benefit of such investments tends to privilege London and the South East at the expense of other areas of the country. Why do you think this is? And, in your view, what needs to change?

Gareth Davies

It's essentially how Governments over a long time (not just the current Government) have used models to build up their estimates of financial benefits of projects. The way those models are operated favours heavily built up areas with very good communications and access to very large job markets.

London, being the magnet for investment and economic activity, more easily scores points on that than a less developed part of our national economy. I think the Government itself has identified this and, as part of its levelling up agenda, is looking at how it can address what feels like an inherent bias in the modelling. Beyond that I think there is a wider set of issues on investment decision making, including carbon and other externalities, which I know the Government is looking at also in resetting the way it makes these calculations.

John Stevenson

Do you think it needs to change the Green Book?

Gareth Davies

I think the Government has already identified that need for itself, so there is a review going on now. By definition, whatever it does now will be partly a policy judgement as this is not just a technical issue, it is a policy issue for Ministers. Our role is to understand the way Green Book assessment will be made in the future and build that into our own appraisal of how projects have been delivered.

John Stevenson

At the outset you made a very interesting point when you said that in your view you had to improve outcomes on value for money. Just out of interest, if we invest in infrastructure in the slower growth areas of the country, but those investments don't actually bring about substantial increased growth or benefits to that area, is that not a challenge to your idea in the first place?

Gareth Davies

Our job is not to take a view on what the right outcomes are, that's a matter for elected politicians and certainly not for auditors. Our job is to understand what the stated objectives of a particular programme of government spending is and report on how well that has been achieved. That's an important distinction. If Ministers set a change policy for investment in less economically active parts of the country and they set out what they're expecting that investment to achieve, those are the outcomes we will be judging against.

It's not for us to have an alternative set of outcomes in mind because nobody voted for the auditor. That doesn't mean we aren't very robust in reporting to Parliament and the public on whether those outcomes have been achieved or not and what has been learned in the process of spending the money in that way.

Mr David Jones

Could we please turn to the Estates strategy which has got a large number of goals, obviously reducing the cost of the Estate overall but also to encourage cross-departmental working, economic regeneration and also

releasing land for development. How feasible would you say it is to pursue so many goals simultaneously?

Gareth Davies

I think they're all relevant so I can see why all of those goals have been included. It is feasible to have several objectives for a policy like estates rationalisation but being completely open about the trade-offs that that will entail and open about progress on each of them and not just highlighting the ones that are going well and not the ones that are going badly is very important.

I think the other really important point to make, is what's happening right now, with Coronavirus, is going to have a fundamental impact. Every organisation is learning how quickly it can make changes in its use of its estate. For example, the NAO is operating entirely remotely from our London office and our Newcastle office and we're able to deliver about 95% of our services fully effectively. That is much more successful than I would have predicted if you'd asked me before we were forced into this way of working. That's been replicated around government departments and public services of all kinds. People are learning a lot about what they really need in accommodation terms and how they can make their processes work effectively at much lower occupancy of property. Of course, there will be many things that are suffering because of not being able to work out of the normal buildings, but I've heard Permanent Secretaries say that as well as responding to the emergency, they're actively logging what they're learning about working in this fashion. They don't want to go back to what was business as usual before this. I'm sure that the previous targets on estates will have to be revised and I'm not going to predict exactly where all those decisions will end up but I'm sure those discussions are going to have a profound effect.

Mr David Jones

Do you think that, paradoxically, the Coronavirus crisis could have the effect of causing a further rationalisation of the Government's estate portfolio?

Gareth Davies

Obviously everyone would rather we didn't have to learn these lessons this way because of the horrendous human and financial cost of what we're dealing with. I think every business in every sector, including the public sector, is learning very fast about how their organisation can become more agile, about how to maintain productivity and morale and effective team working in this setting. I think it's inconceivable that it won't have a profound impact on how the Government think about its estate needs for the future.

Mr David Jones *Returning to the goals I mentioned earlier, which of those would you say are closest to being achieved and which are the most problematic?*

Gareth Davies I think there has been progress towards reducing cost and footprint and so in some ways it's easier to measure than the other goals. We also do departmental reviews on sustainability and we are seeing some quite significant improvements in energy efficiency and carbon footprint which is another objective of the estate strategy. It's patchy and some departments are making faster progress than others but there are some encouraging signs that with a real focus on matters of priority, you can deliver improvements quite quickly. Those are the ones that I'd pick out as the ones that we have the most evidence for, the others are harder to evidence.

Mr David Jones *The Government committed to moving 22,000 civil servants out of London, yet there has been an increase since 2017. In hindsight was that a realistic target on the part of the Government? And do you think the Coronavirus crisis may well accelerate the process of leaving London?*

Gareth Davies I'd be speculating but I think it may well do. London may be the hardest part of the country to return to work in because of the capacity limits on safe public transport. I think the disadvantages of the current model are more evident than ever before. Whether that's a significant enough impact to really reshape our national economy is another question, because this is an entrenched pattern and it'll be hard to shift. But, I think the experience this has given senior people in Government may well lead to a change of attitude. It will take a comprehensive collective will to say "we are no longer going to have a London default model for most public service jobs, particularly policy jobs, we can run all of these department and services from other places." That's going to require willing because of the implications for skills, development or planning around the rest of the country are very significant.

Mr David Jones *The Government has a target to reduce its estate in Whitehall to just 20 buildings. How well on track is it to achieving that?*

Gareth Davies It's some way off. I don't have the numbers to hand, but I could write to the Committee with an update from the sources we have if that would be helpful, but it's a long way from delivering that ambition.

Mr David Jones Yes, perhaps you could let us have that note. Thank you very much.

Chair

Thank you ever so much for joining us this morning, it has been very informative in this private session. We look forward to working with you in the years ahead and we will very much welcome your insight. Thank you.

Gareth Davies

Thank you.

Meeting ends.