REFORM

THE PRICE OF EVERYTHING

A plan for the Office for Value for Money

Joe Hill   November 2024

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After a decade of disruption, the country faces a moment of national reflection. For too long, Britain has been papering over the cracks in an outdated social and economic model, but while this may bring temporary respite, it doesn't fix the foundations. In 1942 Beveridge stated: "a revolutionary moment in the world's history is a time for revolutions, not for patching." 80 years on, and in the wake of a devastating national crisis, that statement once again rings true. Now is the time to fix Britain's foundations.

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Reimagining Whitehall is one of the major work streams within this programme. This paper is part of our Reimagining Whitehall series.

ABOUT REIMAGINING WHITEHALL

This paper is part of the *Reimagining Whitehall* work stream. To effectively reimagine the State, major change must occur in the behaviours, processes, and structures of central government. This paper examines opportunities to improve value for money from public spending, through the role the new Office for Value for Money can play in Treasury decision-making.

Reimagining Whitehall Steering group

Reform is grateful to the expert members of the *Reimagining Whitehall Steering Group* who provide invaluable insight and advise on the programme. Their involvement does not equal endorsement of every argument or recommendation put forward.

Dr Henry Kippin, Chief Executive, North of Tyne Combined Authority

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Professor Jonathan Slater, Former Permanent Secretary, Department for Education

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The price of everything: a plan for the Office for Value for Money

Recommendation 1: HM Treasury should establish OVfM as a permanent team after the Spending Review, and it should continue to operate as part of government. It should be an additional tool for making policy which improves Treasury and departmental decision-making about value for money.

Recommendation 2: OVfM's Chair and the Chief Secretary to the Treasury should appoint an Advisory Group, drawing on deep expertise in key areas for its work programme, but also modelling genuine cognitive diversity with a range of backgrounds and experiences to draw on. Its membership should include one Non-Executive Director from each Whitehall department, and four independent advisory members. This Group should support OVfM in challenging poor VfM, and identifying policy improvements.

Recommendation 3: OVfM's focus should be on areas of cross-cutting reform, where the policy levers and or functional responsibilities are not sufficient to drive better VfM on a department-by-department basis.

Recommendation 4: OVfM should work with the Evaluation Task Force to conduct central assessments of the VfM of more funding in particular parts of public services which have a downstream impact on other areas, to ensure spending decisions are taken based on a shared evidence base.

Recommendation 5: OVfM should work with DSIT's 'digital centre of government' to issue new guidance on how to apply the Treasury's *Green Book* business-case process in a light-touch way to AI projects. And it should include additional guidance in the *Magenta Book* on how departments should benchmark AI software's performance against current service performance to evaluate the benefits of automation.

Recommendation 6: OVfM should work with the Government Legal Department and Government People Group to issue new guidance which simplifies the process of applying additional allowances to hire exceptional talent based on best VfM, and on the cost-benefit analysis of retaining poor performers versus managing them out of the civil service (to accurately reflect the costs of retaining them indefinitely).

Recommendation 7: OVfM should work with the Government Commercial Function to create better incentives to get VfM in procurement. This should include reviewing the actual costs and value delivered of different projects across government to establish common benchmarks in specific categories.

OVfM should also review guidance on delivering VfM in procurement to consider radically different approaches to procurement, like Advance Market Commitments, which could significantly improve VfM through more widely using innovative methods.

Recommendation 8: OVfM should develop a set of standard assumptions which can be used in the Green Book to give guidance on how to assess the relative VfM of economies of scale from national programmes, vs the potential benefits from local 'economies of context', and the risks that large programmes failing reduce overall VfM.

Recommendation 9: OVfM should work with departments to undertake an analysis of policies which routinely increase the cost to build infrastructure, and ways to improve VfM by amending those policies.

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1. Introduction

In the Chancellor's Autumn Budget, she reiterated her promise to "fix the foundations".[1] But many of the issues that underpin the current state of British public finances are structural – growing demand pressures from an ageing and less-healthy population, an unstable geopolitical landscape, the climate crisis, the risks posed by pandemics, natural disasters and new technologies.

In the face of structural challenges, the Government must make structural changes. One opportunity to embed better decision making in public finances is the Government's plan to establish a new Office for Value for Money (OVfM), which will be led by an independent Chair, David Goldstone. Established by the Government as a key part of their strategy to get back control of public spending and make sure it delivers value for money, the Treasury have outlined how:

> "The OVfM will have two primary roles. First, to provide targeted interventions, working with Treasury and departments, so that value for money governs every decision government makes. Second, to recommend system reforms to ensure any changes support the government's missions and deliver value for money"[2]

A focus on value-for-money (VfM) is welcome. The Treasury is often criticised for, in Oscar Wilde's words, "knowing the price of everything and the value of nothing". As the Department accountable to Parliament for public finances, it is supposed to use policies and processes to ensure every pound of public money is used wisely. In practice, many of the key decisions about good VfM are taken by Accounting Officers in departments, who are legally responsible for how they spend their budgets, based on Treasury guidance.

The National Audit Office (NAO) supports Parliament in assessing whether government policy is delivering good VfM, which it defines as "the optimal use of resources (economy, efficiency and effectiveness) to achieve the intended outcomes".[3] These terms are further defined as:

- "Economy: minimising the cost of resources used or required (inputs) – spending less;
- Efficiency: the relationship between the output from goods or services and the resources to produce them – spending well; and
- Effectiveness: the relationship between the intended and actual results of public spending (outcomes) – spending wisely."[4]

Getting better VfM from public spending is essential to the Government's success. Its bold vision to change the UK, particularly through five core Missions, will not be achievable through significant additional spending.[5] Public sector net debt is just under 100 per cent of GDP, with little room for significant new borrowing beyond that already announced, and the tax burden

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[1] Rachel Reeves, 'Speech: Chancellor Rachel Reeves Is Taking Immediate Action to Fix the Foundations of Our Economy', 8 July 2024.
[2] HM Treasury, 'Fixing the Foundations: Public Spending Audit 2024-25', 2 August 2024.
[3] National Audit Office, 'About Us', n.d.
[4] National Audit Office, 'Successful Commissioning Toolkit', n.d.
[5] Labour Party, *A 'mission-Driven' Government to End 'Sticking Plaster' Politics*, 2023.

in 2023-24 is around 40 per cent of the economy, the highest level since the early 1980s.[6] Along with reprioritising public spending to target its core Missions, the Government will need a rigorous focus on ensuring every marginal pound is spent as effectively as possible.

Previous efficiency reforms and reviews have focused on prioritising resources to frontline services, by "cutting administrative costs or improving the effectiveness of back-office functions".[7] But as a result of this approach, which has often protected frontline services at the expense of significant attempts to transform them, the frontline is now struggling under unmanageable levels of demand, and public sector productivity remains below the level it was in 1997.[8] An interviewee for a recent *Reform* research paper characterised this approach as the opposite of how the private sector would prioritise investment:

> "The government are obsessed with protecting frontline budgets, so [they] squeeze the small amount you have available for transformation every year. But in the private sector, they would do the opposite, because you can always control your change budget, but if you don't focus on getting your annual run costs down then they'll keep growing."[9]

The Treasury is often blamed for this situation, characterised as having an inflexible approach entirely focused on short-term cost savings, "a 'mindset' that is finely tuned for cost control but that often fails to grasp harder-to-measure outcomes or longer-term public value".[10] But if that were true and the Treasury always got its way, at the very least the public could expect to see cost control, even if that is at the expense of declining outcomes. Instead, public spending has grown because government policy takes account of neither cost nor value consistently.

Crucially, one new body will not reset the whole public spending framework, and the deep perverse incentives discussed here need to be addressed through systemic reforms. However, given OVfM is an existing Government policy, this paper considers how it should work in an otherwise unreformed system.

In that context, an OVfM can help by resetting both the Treasury and the rest of Whitehall's approach to public spending. It could provide a much-needed perspective in a system where the Treasury cannot appropriately steward over £1 trillion of public spending a year directly, and Accounting Officers often don't have what one former Permanent Secretary called "the muscles of proper decision making, taking accountability, owning the judgement, and holding yourself responsible afterwards".[11]

As *Reform* argued in *Efficiency mindset*, a genuine culture of VfM must be the priority of everyone in the public sector, and a body focused entirely on promoting it and measuring progress would be a worthwhile role for the OVfM. This paper outlines six ideas for areas the Office should focus on, and makes recommendations about its ways of working.

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[6] Office for National Statistics, 'Public Sector Finances, UK: September 2024', 22 October 2024; Matthew Keep, *Tax Statistics: An Overview* (House of Commons Library, 2024).

[7] Patrick King, *An Efficiency Mindset: Prioritising Efficiency in Whitehall's Everyday Work*, 2023.

[8] Office for National Statistics, 'Public Service Productivity, Quarterly, UK: January to March 2024', Web Page, 15 July 2024.

[9] Joe Hill and Sean Eke, *Getting the Machine Learning: Scaling AI in Public Services*, 2024.

[10] King, *An Efficiency Mindset: Prioritising Efficiency in Whitehall's Everyday Work*.

[11] Charlotte Pickles and James Sweetland, *Breaking down the Barriers: Why Whitehall Is so Hard to Reform* (Reform, 2023).

2. The role of OVfM

The form of an organisation should follow its function. Whilst it is tempting to keep stepping back until the whole spending framework is in scope, in the short-term OVfM's role should be grounded in the current system. The plan is for OVfM to be a temporary organisation:

> "The OVfM will be a time-limited multidisciplinary team, based in the Treasury, and will take a task and finish approach to its activities.
>
> Following the conclusion of the Spending Review next year, the Office will evaluate the effectiveness of systems reforms, and its impact on the wider spending architecture. Its vision is to leave a legacy of concrete, embedded improvements to the value for money ecosystem to minimise the risk of poor value for money in future."[12]

For OVfM to have a lasting impact it will need to demonstrate its value-add alongside the existing government architecture, even if over time it comes to take a more established role in a reformed spending framework. So the Office's ways of working should be shaped by the work it could usefully do between now and the conclusion of the Spending Review, and following that in evaluating the Government's progress with initial system reforms.

2.1 Role within government

As already described, the key entities responsible for delivering good VfM in Government are HM Treasury and Accounting Officers. Both are held to account by Parliament, principally through the Public Accounts Committee, which is advised by the independent National Audit Office.

However the Treasury's short-term time horizon for public finances disincentivises it from optimising for the best VfM. It discourages long-term investment, embracing false economies ('save now to spend later'), such as the failure to fund the Department for Education's rebuilding and refurbishment of schools, and the subsequent costs from remediating Reinforced Autoclaved Aerated Concrete.[13] And its model of assessing public spending on a department-by-department basis (through the role of Accounting Officers) prevents it pursuing good VfM in areas which cut across multiple departments.

This incentivises similar behaviour by Accounting Officers, where the effect "is to strip from departments the ability or incentive to act in a long term, strategic way", encouraging them to embrace the same mindset and make decisions year-to-year about their workforces, major programmes, investments and contracts which don't prioritise trade-offs.[14] In this sense, VfM is a 'tragedy of the commons', losing out to competing government objectives or an incomplete view of what truly represents good VfM.

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[12] HM Treasury, 'Fixing the Foundations: Public Spending Audit 2024-25'.
[13] Public Accounts Committee, *The Condition of School Buildings*, 2023.
[14] Stian Westlake and Giles Wilkes, *The End of the Treasury*, 2014.

The OVfM can add new value by focusing on these areas which are neglected by the Treasury's spending teams and departmental Accounting Officers. But in doing this, it enters a crowded landscape of existing bodies working either in or independent of government.

Independent organisations already exist with similar kinds of remits, but where the model would not be a good fit for improving VfM. The Office for Budget Responsibility (OBR) is an independent body that provides official forecasts for the UK economy and public finances, a role which the Government is strengthening in statute.[15] The OBR relies on the Charter for Budget Responsibility setting out the specific mandate for the kind of forecasts it will produce, which can be compared to the Government's own fiscal rules to assess performance.

In contrast, the Office for Tax Simplification (OTS) was set up in 2010 but closed in 2023 with no significant changes to the tax code under its belt. The Treasury's review of the organisation in 2021 identified a lack of clarity about its objectives (eleven years after it was established), and recommended the OTS "undertake a project to articulate its approach to and interpretation of 'tax simplification', including clarifying its aims as an organisation, and the success measures for assessing its progress".[16] And the National Audit Office already exists to advise Parliament (through the Public Accounts Committee) on the VfM of public spending, and produces both policy-specific and thematic reports.

It is not clear that value-for-money is as easily defined as macroeconomic measures are, enabling the OBR to provide an evidence-based check on government policymaking from the outside. It seems more similar to the concept of 'tax simplification' in the OTS, which struggled to define its objectives. And insofar as external audit and assessment of spending is valuable, the National Audit Office already exists to fulfil that role – one which is particularly challenging given how poorly information on spending and outcomes are publicly documented. (Outcome Delivery Plans, the previous documents used to explain the governments priorities for public spending, have not been published since the 2021 Spending Review.)[17]

The role for OVfM should instead be a critical friend within the Treasury, with the internal clout to assess the value of policies before they are agreed and announced. This role fits well with the OVfM's current plan, to have an independent Chair reporting directly to Treasury Ministers, but be staffed by multi-disciplinary teams of civil servants.[18]

2.2 Function

With this remit, OVfM is still far from the only internal team trying to drive cross-cutting goals, and it will need to negotiate where its work starts and ends with other teams working on similar issues.

The Evaluation Task Force also advises government departments on their plans to evaluate different projects and programmes to assess their performance.[19] The Infrastructure and Projects Authority previously reported into both the Cabinet Office and the Treasury on the delivery of projects in the Government Major Projects Portfolio (GMPP), and Labour plan to

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[15] Michael Race and Faisal Islam, 'New Law Aimed to Prevent Repeat of Truss Mini Budget', *BBC News Online*, 18 July 2024.

[16] HM Treasury, *2021 Review of the Office of Tax Simplification: Final Report*, 2021.

[17] King, *An Efficiency Mindset: Prioritising Efficiency in Whitehall's Everyday Work*.

[18] HM Treasury, 'Fixing the Foundations: Public Spending Audit 2024-25'.

[19] Cabinet Office, *Evaluation Task Force, Strategy 2022-2025*, 2023.

merge this into a new National Infrastructure and Service Transformation Authority (NISTA) to continue similar functions.[20] The Cabinet Office's Complex Transactions team provides an internal consultancy service to government departments dealing with tricky issues of outsourcing and procurement.

The Treasury has outlined two roles for OVfM:

> "First, to provide targeted interventions, working with Treasury and departments, so that value for money governs every decision government makes. Second, to recommend system reforms to ensure any changes support the government's missions and deliver value for money."[21]

In practice, this scope could cover any number of different approaches to improving VfM across government. Crucially, OVfM needs to resist spending all its time resourcing reactive VfM challenges in parts of government where other teams are already directing their time.

One risk is that is that, with ambiguity about its focus, OVfM's time is monopolised by the spending issues which preoccupy the rest of the Treasury. For example, it could become entirely consumed by assessing how to reprioritise spending towards the Government's five Missions, or doing deep dives into policy areas where the immediate short-term cost pressures are putting pressure on existing government settlements – like the asylum system.

Instead, OVfM can most usefully focus on improving value in cross-cutting spending, where Accounting Officers do not hold all the policy levers to drive better VfM, and the Treasury's department-based model (with spending teams 'man-marking' departments) does not easily lend itself to considering VfM across government.

In some areas, the challenges are cross-cutting because the policy issues cut across more than one department, and policy decisions taken in isolation can 'shunt' costs from one department to another. In others, it is because the issues driving poor VfM are functional, and no one Accounting Officer is responsible for the performance of the cross-cutting function that they and their colleagues use, meaning it is not a priority for any of them. A list of areas which fit this description can be found in Chapter 3.

Multi-disciplinary teams are an excellent opportunity to not only bring in specialist resource to support cross-cutting themes, but to also create the conditions for genuine cognitive diversity, which previous research has often noted as lacking in the centre of government.[22] In the same vein, a multi-disciplinary team and independent Chair should be supported by an Advisory Group which brings together deep expertise on key cross-cutting issues, from the public and private sectors. This group should help OVfM with developing and red-teaming proposals.

In order to increase departmental buy-in, as well as make the most of external expertise already in government, a NED from each major spending department should be nominated to sit on the Group, and then act as a VfM champion on the departmental board. This would also

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[20] Rob Hakimian, 'Labour Plans to Merge NIC and IPA into "powerful" New Infrastructure Delivery Body', *New Civil Engineer*, 23 May 2024.
[21] HM Treasury, 'Fixing the Foundations: Public Spending Audit 2024-25'.
[22] Charlotte Pickles and James Sweetland, *Breaking down the Barriers: Why Whitehall Is so Hard to Reform*; Amy Gandon, *Civil Unrest: A Portrait of the Civil Service through Brexit, the Pandemic and Political Turbulence*, 2023.

mean that, whilst bringing external expertise, those Members would also bring knowledge of how government works from their NED roles. The Group should then be supplemented with independent Members, ensuring the Group overall has cognitive and experience diversity – in line with previous research on the qualities of successful boards.[23]

An OVfM constituted in this way could provide significant ongoing value to the Government, beyond the Spending Review. Although its primary role should be internal within Government, to not duplicate the work of the NAO, it should provide annual written updates on its work to the Public Accounts Committee. This would improve transparency about improvements to VfM, and to hold departments to account for publishing their Outcome Delivery Plans.

Recommendation 1: HM Treasury should establish OVfM as a permanent team after the Spending Review, and it should continue to operate as part of government. It should be an additional tool for making policy which improves Treasury and departmental decision-making about value for money.

Recommendation 2: OVfM's Chair and the Chief Secretary to the Treasury should appoint an Advisory Group, drawing on deep expertise in key areas for its work programme, but also modelling genuine cognitive diversity with a range of backgrounds and experiences to draw on. Its membership should include one Non-Executive Director from each Whitehall department, and four independent advisory members. This Group should support OVfM in challenging poor VfM, and identifying policy improvements.

Recommendation 3: OVfM's focus should be on areas of cross-cutting reform, where the policy levers and or functional responsibilities are not sufficient to drive better VfM on a department-by-department basis.

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[23] Patrick King and Sean Eke, *Mission Control: A How-To Guide to Delivering Mission-Led Government* (Reform, 2024).

3. Areas of focus

This Chapter outlines six areas of focus for OVfM, based on cross-cutting challenges in public spending which are not unique to one Accounting Officer or spending team. In these areas, there is not a strong enough incentive for existing organisations to drive good VfM, and the policy levers to do so are not wholly within any one department's gift. Several overlap with areas which Gareth Davies, Comptroller and Auditor General of the National Audit Office, identified where government could unlock tens of billions of savings.[24]

However, to varying extents many of these areas have some existing level of functional leadership in government. AI and Automation, for example, will be led by the new "digital centre of government", which incorporates the previous Incubator for AI (i.AI), Central Digital and Data Office (CDDO) and Government Digital Service (GDS) groups.[25]

OVfM should not duplicate the work of these functions. Instead, its value is in identifying specific internal government policy changes which would help secure better VfM in these areas, and recommending their adoption by Government – particularly when they require changes to Treasury guidance and processes.

3.1 Cross-cutting policy

Public spending is fundamentally allocated on a department-by-department basis, but many policy issues cut across several departments' responsibilities. Accounting Officers are responsible for assessing VfM in the spending decisions they make, but these decisions are often limited by the levers they have at their disposal, the information presented to them within their own department, and the incentives to prioritise their own budgets over others. In practice, individual Accounting Officers trying to obtain the best VfM in isolation can lead to poor VfM overall.

The challenges of cross-government working are well-documented, and the Public Accounts Committee have made five recommendations to HM Treasury and the Cabinet Office to improve it.[26] The Treasury's *Managing Public Money* guidance now contains six potential models for government departments to use for joint projects, which retain ultimate Accounting Officer responsibility, but allow approaches such as pooled budgets for projects, sharing responsibility via a single SRO or programme board, or machinery of government changes.

But no matter what governance approach is taken, cross-cutting assessments of the VfM of different interventions would be invaluable to the Accounting Officers involved. Without these, it is too easy for departments to knowingly or unknowingly shunt costs between departments, or from central government to local government – which the *Consolidated Budgeting Guidance* is clear should not happen.[27] To give two examples:

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[24] Gareth Davies, *Improving Productivity Could Release Tens of Billions for Government Priorities*, 2024.
[25] Department for Science, Innovation and Technology, 'AI Expert to Lead Action Plan to Ensure UK Reaps the Benefits of Artificial Intelligence', Web Page, 26 July 2024.
[26] Committee of Public Accounts, *Cross-Government Working*, HC 75 (London: The Stationery Office, 2024).
[27] HM Treasury, *Consolidated Budgeting Guidance 23-24*, 2023.

The criminal justice system

Funding for police forces is the responsibility of the Home Office, but the rest of the criminal justice system is delivered by the Ministry of Justice. In the 2019 Spending Round, the Home Office received additional funding to hire 20,000 more police officers, and the Ministry of Justice received capital investment to begin building an additional 10,000 prison places, along with an expansion of capacity in the Crown Prosecution Service, courts and probation services, in part in recognition that more police officers would drive more arrests and ultimately convictions.[28]

Whilst the Police Uplift Programme was delivered successfully, the New Prisons Programme is behind schedule, and the Government has had to release prisoners early to ease overcrowding.[29] The link between these outcomes is complicated, though the NAO commented that the initial evidence base for the Police Uplift Programme's benefits was "weak", and it would certainly have benefited from a central estimate of the overall VfM of recruitment, taking into account the impact on the wider justice system.[30]

Health and social care

The health of the public is the responsibility of the Department for Health and Social Care (DHSC). Prior to 2018, it was split, with responsibility for the National Health Service managed by the Department for Health, and as adult social care (a core part of overall health and care system) was delivered by local authorities it was within the remit of the Ministry for Housing, Communities and Local Government (MHCLG). But although bringing social care into the remit of DHSC could have meant that spending decisions were taken together across the health service and social care, in practice they are not.

Because funding for the NHS is allocated nationally by NHS England, and the delivery of social care is ultimately still the responsibility of local authorities with their own Accounting Officers (chief executives), DHSC's policy continues to prioritise the financial sustainability of the NHS. Because the Social Care Grant only funds a fraction of overall care spending, DHSC can take a narrow view and continue to expect more of the pressure to be absorbed by councils, at the expense of other policy goals which MHCLG is responsible for.[31] Despite the Autumn Budget 2024 announcing an additional £22.6 billion of NHS spending over two years, the social care sector was only allocated an additional £600 million for 2025-26[32] – well below estimates of the funding needed to meet demand.[33] The result is a social care system in crisis, with knock on impacts for NHS productivity and performance, and a local government finance crisis meaning less investment in health creating and preventative services.

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[28] HM Treasury, *Spending Round 2019*, 2019, https://www.gov.uk/government/publications/spending-round-2019-document/spending-round-2019.

[29] Home Office, *Police Uplift Programme: Entry Routes of Officer Recruits*, 2024; Parliamentary Office of Science and Technology, *Prisons Capacity and Performance*, 2024; Ministry of Justice, 'Lord Chancellor Sets out Immediate Action to Defuse Ticking Prison "Time-Bomb"', 12 July 2024.

[30] National Audit Office, *The Police Uplift Programme*, 2022.

[31] Rosie Beacon, *Close Enough to Care: A New Structure for the English Health and Care System* (Reform, 2024); The King's Fund, *Social Care 360: Expenditure*, 2024.

[32] HM Treasury, *Autumn Budget 2024*, 2024.

[33] Giulia Boccarini et al., 'Adult Social Care Funding Pressures', Web Page, 25 September 2023.

To make sure funding decisions taken by individual Accounting Officers are based on the best VfM across government, rather than just within their own Budgets, OVfM can support cross-cutting policy areas by producing a shared assessment of the VfM implications of prioritising funding for different parts of each system.

> **Recommendation 4:** OVfM should work with the Evaluation Task Force to conduct central assessments of the VfM of more funding in particular parts of public services which have a downstream impact on other areas, to ensure spending decisions are taken based on a shared evidence base.

3.2 AI and automation

Public services are still mainly delivered by public servants. This presents a challenge – even when public sector productivity remains stagnant, wages will continue to be dragged up by Baumol's cost disease, an effect that high productivity, high wage growth jobs has on the rest of the labour market.[34] This is a structural challenge, when payroll costs to central government alone are forecast to be £197.8 billion in 2024-25, roughly one fifth of total central government spending.[35]

For the most part, recent efforts to drive better VfM through more automation and adoption of AI have either been unsuccessful or inconclusive. *Reform's* recent paper *Getting the machine learning* argued for a new approach to AI adoption in the State, prioritising six areas where there is lower-hanging fruit for public services to automate and free up staff time. The previous Government had an internal target of 3.55 times return-on-investment, but reportedly some tools showed more like a 200 times return on investment.[36]

The challenge with realising this value from AI is scale. Most AI opportunities in government are at the pilot stage, and interviewees believed that they remained pilots (or were closed) because there was no practical way of funding the projects to scale up. This is in large part because departmental budgets were always prioritised towards frontline services and maintaining legacy technology, rather than developing new tools. *Getting the machine learning* recommended a centrally-administered AI Transformation Fund, to identify the best VfM opportunities and invest in those.[37]

One frequent criticism of central funds is that they are under-subscribed and bureaucratic to administer, based on lengthy business cases reviewed by the Treasury. Another blocker to scaling up adoption of AI identified in the paper is how the performance of AI software and risk of failure are evaluated. Often, this is against hypothetical and near-perfect levels of performance, rather than against the actual level of performance in a system. To be better VfM, automation doesn't have to be perfect, it must only perform better than human decision-

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[34] W. J. Baumol and W. G. Bowen, 'On the Performing Arts: The Anatomy of Their Economic Problems', *American Economic Review* 55 (1965): 495–502; William J. Baumol et al., *The Cost Disease: Why Computers Get Cheaper and Health Care Doesn't* (New Haven, Connecticut: Yale University Press, 2012).

[35] HM Treasury, *Public Expenditure: Statistical Analyses 2024*, 2024.

[36] Lucy Fisher, 'UK Government to Trial "red Box" AI Tools to Improve Ministerial Efficiency', *Financial Times*, 28 February 2024.

[37] Hill and Eke, *Getting the Machine Learning: Scaling AI in Public Services*.

makers, consistently and at a better cost. It is not clear that in many cases where AI adoption is considered risky, it is any less risky than maintaining the status quo.[38]

As the now Chief Secretary to the Treasury said in Opposition, innovation will come from letting "a thousand pilots flourish" in the public sector. But VfM will only be improved if some of these pilots can be scaled up, because the investment structures and processes, evaluation of performance and risk, and ways of procuring the software are radically improved.[39] OVfM should identify ways in which HM Treasury guidance and processes should be adjusted to support DSIT's 'digital centre of government' in scaling up AI adoption.

> **Recommendation 5:** OVfM should work with DSIT's 'digital centre of government' to issue new guidance on how to apply the Treasury's *Green Book* business-case process in a light-touch way to AI projects. And it should include additional guidance in the *Magenta Book* on how departments should benchmark AI software's performance against current service performance to evaluate the benefits of automation.

3.3 Workforces: talent and performance

5.94 million people work in the public sector. Workforce reform is a vast challenge, encompassing areas like management, skills and training, spreading best practice and terms and conditions. Relatively little formal evaluation of VfM of workforces is done holistically – the independent Pay Review Bodies and annual pay processes mainly exists to control costs and industrial relations, and struggle to be a vehicle to improve performance. For example, the Police Renumeration Review Body reports have called for the police to produce a plan to include performance in decisions about pay awards since 2019, yet as of the 2024 report this request is still outstanding.[40]

In addition, departments must secure the approval of the Chief Secretary to the Treasury for any remuneration at or above £150,000, before advertising roles – an arbitrary cap which doesn't take into account the relative VfM of some roles, particularly compared to the cost of hiring equivalent support in highly skilled roles as an external consultant. Compensation is impacting both recruitment and retention: base salaries for SCS roles in 2022-23 ranged from 32 per cent to 96 per cent of the comparable private sector market median, and permanent secretaries are paid roughly ten per cent of the median FTSE 250 chief executive.[41] Paying less and getting a lower performer is a false economy.

As a result, there are many opportunities to look at improving VfM in the public workforce. Two of the most acute relate to exceptional talent and repeat poor performance, as *Reform's* recent paper *Making the grade* showed.

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[38] Nathan Benaich and Alex Chalmers, *State of AI 2024*, 2024.

[39] Christopher McKeon, 'Let 1,000 AI Pilots Flourish to Help Public Sector, Says Labour MP', *Independent*, 9 August 2023.

[40] PRRB, *Police Renumeration Review Body, Fifth Report, England and Wales 2019*, 2019; PRRB, *Police Renumeration Review Body, Tenth Report, England and Wales 2024*, 2024.

[41] Cabinet Office, *Senior Salaries Review Body Report: 2023*, 2023.

Exceptional challenges facing the State require exceptional talent. According to one study, 26 per cent of output derives from the top 5 per cent of workers and "slight percentage increases in the output of top performers far outweigh moderate increases of the many".[42] A failure to recruit the most exceptional talent into government can result in poor judgement in crucial decisions, groupthink and ultimately failure in critical areas which can result in major crises. Yet a survey conducted by *Reform* in partnership with *Civil Service World* (CSW) found that just 29 per cent of respondents agreed with the statement "the civil service takes talent and performance management seriously", while 57 per cent disagreed.[43]

In the same *Reform* and CSW survey, just 6 per cent of line managers somewhat or strongly agreed with the statement that "the civil service in general manages poor performance well"; a full 87 per cent disagreed. Supporting this, a National Audit Office report found that "departments are not adequately following up underperformance to support both individuals and the teams they work with".[44] *Making the grade* revealed that poor performers are routinely moved between teams rather than being effectively performance-managed.

Poor performers come with a significant direct cost, from occupying a role which could be filled by a highly performing member of staff, to indirect costs from the productivity impact on their colleagues and the performance of the organisations they work in. One of the reasons that this is never addressed is the personal 'cost' to managers and leaders of doing performance management in a very bureaucratic system, as well as the risk of an employment tribunal.. Needless to say, this is very poor VfM to the taxpayer.

Reform recommended measures to reduce the poor VfM caused by repeat poor performance, including creating new Performance Units in every department to directly support managers with the bureaucratic elements of performance managing poor performers. And to ensure that the cost-benefit analysis of continuing to manage poor performers is accurate, assessments of the VfM for risking an employment tribunal should also consider the costs of continuing to employ consistent poor performers for indefinite lengths of time, and the productivity impact on their teams. In recognition of the importance of considering the VfM of the civil service workforce, *Reform* called for the performance management of civil servants to be included within the responsibilities of Accounting Officers.

Given decisions about compensating exceptional talent and managing out poor performers are functions of guidance, OVfM has a key role to play in ensuring that guidance accurately reflects best VfM, working with the organisations which are responsible for issuing it.

> **Recommendation 6:** OVfM should work with the Government Legal Department and Government People Group to issue new guidance which simplifies the process of applying additional allowances to hire exceptional talent based on best VfM, and on the cost-benefit analysis of retaining poor performers versus managing them out of the civil service (to accurately reflect the costs of retaining them indefinitely).

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[42] Ernest O'Boyle Jr and Aguinis Herman, 'The Best and the Rest: Revisiting the Norm of Normality of Individual Performance', *Personnel Psychology* 65, no. 1 (2012): 79–119.

[43] Joe Hill, Charlotte Pickles, and Sean Eke, *Making the grade: Prioritising Performance in Whitehall* (Reform, 2024). The survey referenced had 771 responses from current civil servants, and although it provides a powerful indicator of civil servants' views, it is not representative and should not be treated as such, and responses are not weighted.

[44] National Audit Office, *Civil Service Workforce: Recruitment, Pay and Performance Management*, 2023.

3.4 Procurement

One third of public budgets are spent buying goods and services, but public procurement is littered with examples of bad VfM.[45] It is unfair to directly compare this to private sector procurement, as no one company has requirements comparable to the State. However no company in the world buys goods and services like any part of the UK Government. Many Government procurements have failed, rendering bad VfM from the sunk cost involved and the opportunity cost of a successful project.

Over-specification

In some cases, this is from over-specification, and a lack of interest in buying capabilities off-the-shelf. The Watchkeeper WK450 drone programme was started in 2000, to build a similar capability for the Ministry of Defence (MoD) to the Israeli Hermes 450 UAV. The procurement was concluded in 2005, with a target date of 2010 for being fully operational.[46] They were eventually introduced in 2018 at full operational capability. As of 2020, only 13 of the 45 planned aircraft were in a condition to fly.[47] Similar challenges have also plagued the Ajax armoured vehicle programme.[48]

These problems are not isolated to Defence. Perhaps the most famous failure of procurement policy was the NHS National Programme for IT (NPfIT). In February 2002 the Department for Health announced a massive overhaul of the health service's IT. The Government hoped to create a single electronic system for storing patients records in three years, so it could be easily accessed and shared among England's then 30,000 GPs and 300 hospitals. The Department of Health described it as "the world's biggest civil information technology programme".[49] As whole-life costs increased from £3 billion to £6.2 billion, then £12.4 billion, the benefit-cost ratio was almost entirely eroded. Worse still, the programme failed to deliver, and the systems it delivered failed.[50] Anthony King and Ivor Crewe characterised this as a major failure to accurately cost the programme – "nobody ever seemed to subject it to a serious – or even back-of-the-envelope – cost benefit analysis".[51]

Software

Software procurement is challenging outside the NHS. Much of the Government Digital Service's success from 2011 onwards was due to building much more in-house digital expertise, to either build software products directly, or more intelligently outsource.[52] In particular, the creation of the Digital Marketplace helped make the provision of digital services

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[45] Davies, *Improving Productivity Could Release Tens of Billions for Government Priorities*.

[46] Gareth Cornfield, 'Watchkeeper Drones Cost Taxpayers £1bn', *The Register*, 19 November 2017.

[47] George Allison, 'More than Half of Troubled Watchkeeper Drone Fleet Kept in Storage', *UK Defence Journal*, 4 August 2020.

[48] NAO, *The Ajax Programme*, 2022.

[49] Anthony King and Ivor Crewe, *The Blunders of Our Governments* (London: Oneworld Publications, 2013).

[50] King and Crewe.

[51] King and Crewe.

[52] Hill and Eke, *Getting the Machine Learning: Scaling AI in Public Services*.

more competitive, and reduce the monopoly power of a handful of large system integrators, though it's effectiveness has eroded over time.[53]

Government rarely buys Software as a Service (SaaS) – common digital products which are 'rented' through a recurring license fee, rather than built in house and paid for once. SaaS is now the default way of buying software in many parts of the private sector, but it has little uptake in government. The advantage of renting software via a license fee is that it reduces the need for expensive capital expenditure by Government – the software is already developed at the point of purchase, and just needs to be integrated.[54] *Reform* has called for a bespoke procurement framework to license AI software from the private sector.[55]

More innovative approaches to procurement, particularly of smaller technical projects, do exist. The Accelerated Capability Environment is a public-private partnership between the Home Office and Vivace.[56] ACE is used as a commercial vehicle for taking smaller government projects, particularly R&D, to market for SMEs to bid for. Several interviewees for *Getting the machine learning* remarked at how flexible it was able to be in collaborating with contract owners to shape projects early on in market engagement, and also in allowing providers to more easily shape consortiums with complementary skills to work on joint projects.

Outsourcing

The Government has promised the biggest wave of insourcing in a generation.[57] The collapse of Carillion showed how when outsourcing to private providers is done badly, it can come with significant risk to good VfM – both from mismanagement of those services, and the cost of bailing out companies whose collapse requires taxpayer-funded bailouts. When operational services are large and costly to set up, as in the case of the probation services which were brought back into direct Government leadership in 2020, it is hard to argue that those services are meaningfully competitive. The cost to the government of retendering is exceptionally high, making the likelihood of switching providers low even if performance is poor.[58]

Another form of outsourcing is the retention of professional services firms to work for government, on individual projects or an ongoing basis. Consultancy services are increasingly provided through large call-off contracts without a specific project attached, using frameworks such as MCF3, and then their expertise is drawn down for the completion of shorter projects over several years. This favours larger suppliers with the breadth and depth of capacity to service lots of different projects, depending on need, which crowds out competition from smaller suppliers.

The challenges of public procurement compound in a vicious cycle. Historic failures have resulted in more processes and due diligence, which has increased the complexity and timetable of procurements. That in turn creates more over-specification, and risk that the wrong decisions are made about what the Government needs to buy before market engagement has even begun, in turn increasing the risk of cost-overruns and failure. This

[53] Andrew Greenway and Tom Loosemore, *The Radical How* (Public Digital, Nesta, 2024).

[54] Hill and Eke, *Getting the Machine Learning: Scaling AI in Public Services*.

[55] Hill and Eke.

[56] Simon Carroll, 'Scaling the Accelerated Capability Environment through Renewed Public-Private Partnership', GOV.UK, 24 November 2022.

[57] Jim Pickard, 'Six Policy Areas in Labour Manifesto Being Scrutinised by Business', 14 June 2024.

[58] Tom Sasse, *Probation Outsourcing Is a Case Study in Failure* (Institute for Government, n.d.).

cycle leads to constant focus on contractual outputs, rather than controlling costs, or delivering the right outcomes.

Breaking out of this cycle requires a fundamental reset of the Government's approach to value, cost and risk in procurement. Within that, OVfM should work with the Government Commercial Function to identify opportunities to overhaul how VfM is considered in procurement. For example, OVfM could set new policies which require much more cross-government benchmarking of the price for different kinds of goods and services, model new ways to assess the actual affordability of different kinds of contracts, and demonstrate the value of innovative approaches to procurement which protect against downside risk.

Using approaches like Advance Market Commitments, for example, which involve specifying requirements for a product to meet, a price the government is willing to pay, and a volume they will purchase, can protect the government against the downside risk of procuring bespoke solutions which do not work, encourage industry to more innovatively create the solution, and can provide better VfM by getting industry to put their own capital at risk.[59]

Economies of context

The Government has committed to a "devolution revolution" across England, strengthening the regional tier and giving more powers to local government.[60] Often, devolution is seen as a barrier to good VfM, with concerns about the risk of local duplication compared to the economies of scale from a national programme. Inevitably, there needs to be a balance, and *Reform* has recommended models for devolving more power whilst still retaining central control of crucial national capabilities.[61] But pursuing economies of scale in every case ignores some cases where scale hinders good VfM – particularly those where local variation is essential to getting the best outcomes from spending, or when national delivery creates large monolithic change programmes which centralise the risk of failure.

National delivery of services always comes with a degree of standardisation, and a need to ensure 'one size fits all' across areas which often vary hugely. As *Reform* outlined in *Devolve by default*, national approaches to budget-setting can increase inefficiency through "friction" as resources are passed down through different layers of government with associated administrative overheads. Instead, allocating funding at a more local level can mean "services are better tailored to meet specific local needs, and integrated in a way that takes into account the complexity of local assets, actors and opportunities".[62]

For example, different populations have very different healthcare needs, and local service commissioning is far better suited to address many of these than national services would be.[63] These 'economies of context' from making spending decisions locally often outweigh the economies of scale from making spending decisions nationally.

'Putting too many eggs in the same basket'

Even in some cases when local requirements should not vary significantly, such as with many 'back-office' functions, pursuing economies of scale through larger centralised programmes

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[59] Nan Ransohoff, 'How to Start an Advance Market Commitment', *Works in Progress*, 31 May 2024.

[60] MHCLG, 'Deputy Prime Minister Kickstarts New Devolution Revolution to Boost Local Power', 16 July 2024.

[61] Simon Kaye, India Woodward, and Giorgia Vittorino, *What Powers Where? Achieving the 'Devolution Revolution'*, 2024.

[62] Simon Kaye and Rachael Powell, *Devolve by Default: Decentralisation and a Redefined Whitehall*, 2024.

[63] Beacon, *Close Enough to Care: A New Structure for the English Health and Care System*.

can increase the overall risk to VfM. By putting 'too many eggs in the same basket', overspends, delays or even programme failure have an outsized impact on overall VfM. When assessing the VfM of central delivery, it is crucial that government considers the risk of creating a single point of failure, and the corresponding impact on VfM.

In 2003 the then Department for Communities and Local Government (DCLG) decided to improve the efficiency of the 46 local fire control rooms by replacing them with a network of 9 regional control centres. These would be serviced by a computer system which would support staff in handling 999 calls nationally, and tasking them to local services. In March 2007 DCLG signed a contract to build the IT system, which was meant to be in service by October 2009.[64] Delays and overruns meant that by the end of 2010 the Department abandoned development of the IT part of the project altogether.

Failure to deliver the new IT meant that local services did not transition to using the regional control centres themselves, with many remaining empty and unused for years. The fire control centre in Cambridgeshire took ten years to be leased, ultimately by a private tenant.[65] The whole project was estimated to cost £120 million at the outset, but by March 2011, over double that amount had been spent (£250m), and ultimately the NAO claimed a minimum of £469 million would be wasted, nearly four times the original estimate.[66]

> **Recommendation 7:** OVfM should work with the Government Commercial Function to create better incentives to get VfM in procurement. This should include reviewing the actual costs and value delivered of different projects across government to establish common benchmarks in specific categories.
>
> OVfM should also review guidance on delivering VfM in procurement to consider radically different approaches to procurement, like Advance Market Commitments, which could significantly improve VfM through more widely using innovative methods.
>
> **Recommendation 8:** OVfM should develop a set of standard assumptions which can be used in the Green Book to give guidance on how to assess the relative VfM of economies of scale from national programmes, vs the potential benefits from local 'economies of context', and the risks that large programmes failing reduce overall VfM.

3.5 Infrastructure

The Government has committed to create NISTA to get a grip on the perennial challenges of delays to infrastructure projects.[67] Britain's last nuclear power plant was built in 1995, and Hinkley Point C will be between four and six times more costly per megawatt of capacity than South Korea nuclear power plants.[68] Britain has not built a new reservoir since 1992, but since then the population has grown by 10 million.[69] The planning documentation for the Lower Thames Crossing runs to 260,000 pages, and the application process alone has cost £297

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[64] King and Crewe, *The Blunders of Our Governments*.

[65] Jozef Hall, 'Waterbeach Fire Control Centre Gets Tenant after 10 Years', *BBC Radio Cambridgeshire*, 24 February 2020.

[66] King and Crewe, *The Blunders of Our Governments*.

[67] Labour Party, 'Change: Labour Party Manifesto 2024', 2024.

[68] Ben Southwood, Samuel Hughes, and Sam Bowman, *Foundations: Why Britain Has Stagnated*, 2024.

[69] Southwood, Hughes, and Bowman.

million.[70] Though many structural challenges exist with Whitehall's approach to the management of these major infrastructure problems, the most significant barriers to investment are regulatory – the planning system, the requirements of environmental review, and challenge by judicial review exacerbated by the Aarhus Convention.[71]

These same challenges also constrain the development of public sector infrastructure, by significantly extending delivery timelines and increasing costs to unaffordable levels. The challenges of the New Prisons Programme mean that British prisons don't have enough capacity, and have had to release prisoners early to make room for more. The lack of specific, purpose-built government accommodation has meant many asylum seekers and refugees are effectively permanently housed in hotel accommodation, much of which is unfit for families to live in permanently. Neither of these represent good VfM, yet they persist because costs are so high and timelines so long that they are seen as the only option.

Getting better VfM out of public investment in infrastructure requires a concerted effort to reduce costs and speed it up, through reducing the regulatory burden. OVfM should support other departments in identifying the genuinely cross-cutting policy blockers which affect infrastructure projects led by multiple departments, and identifying ways to improve VfM by amending or removing them.

> **Recommendation 9:** OVfM should work with departments to undertake an analysis of policies which routinely increase the cost to build infrastructure, and ways to improve VfM by amending those policies.

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[70] Sam Dumitriu, 'Revealed: How the Lower Thames Crossing Is Breaking Records for All the Wrong Reasons' (Britain Remade, 12 January 2024).
[71] Samuel Hughes, *Accelerating Infrastructure: How to Get Britain Building More*, 2024; David Lawrence and Gabriel Moberg, 'Reforming Judicial Review to Get Britain Building', 16 October 2024.

4. Conclusion

The challenges with improving VfM in public spending are structural, and their roots go deep into the framework of public finances. The system needs systemic reform, but within the current un-reformed model there is an important role to play for the OVfM in providing new insights on cross-cutting challenges in government policy, where the best VfM is often overlooked.

The fixes aren't easy, and many involve overturning decades-old policies which are deeply entrenched in bureaucratic and political decision-making. Attitudes towards the importance of department-by-department financial decisions, the risk and reward of AI and automation, the true cost of an HR system which dissuades exceptional talent and rewards poor performance, and over-regulated and bureaucratic approaches to procurement and infrastructure which consistently fail to deliver their stated goals – all of these need to be overhauled.

Plenty of existing Government organisations control the direct levers to make these changes, but an OVfM, with access to deep expertise from business and industry, is well-placed to make the right changes to the Treasury's own policies which will support the wider effort.

If it can succeed, then the Government could unlock significant efficiency and effectiveness improvements from its current budgets, freeing up resources to better support the Missions and other key public services reforms. Failure will mean more of the same – ever-growing budgets, with ever-diminishing effectiveness, and a system characterised by waste and crisis.

In the current public spending framework, OVfM can be a voice for better decision-making in those areas where value is often overlooked – cross-cutting policy and functional areas where better value will only come from working across organisational siloes.

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