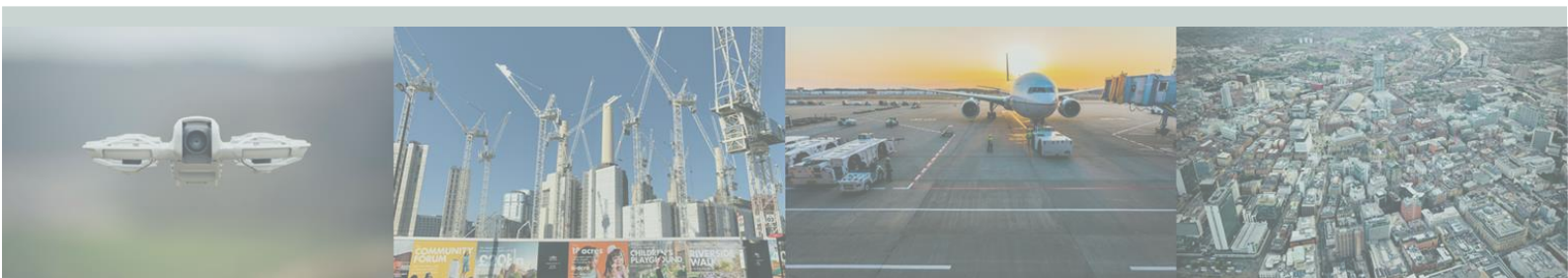




# BUILDING STATE CAPACITY FOR ECONOMIC GROWTH

March 2025



## **ABOUT REFORM THINK TANK**

*Reform* is established as the leading Westminster think tank for public service reform. We believe that the State has a fundamental role to play in enabling individuals, families and communities to thrive. But our vision is one in which the State delivers only the services that it is best placed to deliver, within sound public finances, and where both decision-making and delivery is devolved to the most appropriate level. We are committed to driving systemic change that will deliver better outcomes for all.

We are determinedly independent and strictly non-party in our approach. This is reflected in our cross-party Advisory Board and our events programme which seeks to convene likeminded reformers from across the political spectrum.

*Reform* is a registered charity, the *Reform* Research Trust, charity no. 1103739.

## **ABOUT LABOUR GROWTH GROUP**

The Labour Growth Group is a group of over 100 Labour MPs committed to tearing down the barriers to growth. We believe that many of the barriers to unleashing a new era of growth in the United Kingdom are political and we exist to confront those barriers.

We push Government to be as bold and radical as possible in pursuing economic growth and rising living standards. We engage with fresh thinking, discuss big questions, and push practical reforms that can unlock potential and put money in the pockets of working people across the UK.

## **FOREWORD CHRIS CURTIS MP**

The British state is the machinery by which we deliver prosperity and security to the people of this country, but right now that machinery is jammed. Successive governments have promised transformation while allowing dysfunction to persist at the heart of the State, where inertia has become the default. When the State underperforms, so too does the nation — not because of its workers, but because of a failure of political will to fix a broken system. Britain's civil service is home to incredibly talented people, yet too many are trapped in outdated systems that stifle innovation and slow progress.

The consequences are clear. Public sector productivity has stalled, digital transformation has been neglected, and businesses struggle to invest in a system that finds reasons to say no rather than yes. A sluggish, risk-averse state has made it harder to build the homes we need, improve wages, and deliver world-class public services. The price of inaction is Britain falling further behind in an era of rapid change.

At Labour Growth Group, we reject the idea that decline is inevitable. Nor do we blame civil servants, who are often the most frustrated by the inefficiencies they navigate daily. They are working within a system designed for a different age — one that rewards caution over ambition and disperses responsibility so widely that no one is truly accountable. Reforming that system is not an attack on public servants — it's an act of liberation.

The world is changing fast, with AI and automation reshaping economies, and a more geopolitically unstable world. This moment calls for urgent and radical reform to the way we run government. The Government has recognised the challenge and taken important first steps, but we must go further. The civil service needs clearer political direction, stronger leadership, and the agility to respond to modern demands.

This paper sets out a bold vision for a state that can deliver long-term growth and rising living standards — one that hires smarter, decides faster, and relentlessly drives outcomes. If Britain is to thrive again, we must fix the systems that will make it happen. The time is now.

**CHRIS CURTIS, CO-CHAIR, LABOUR GROWTH GROUP**

## FOREWORD **CHARLOTTE PICKLES**

Few ministers join government seeking to overhaul the machinery that underpins it. Few leave government without wishing they had done so.

Tony Blair spoke of the “scars on my back” from attempting to reform public services, David Cameron criticised Whitehall’s “enemies of enterprise”, and Boris Johnson talked of government as a “recurring bad dream [where] your feet won’t move”.

That long history of feeling thwarted by a machine that can’t act with sufficient pace and focus is the history of politicians failing to grasp the fundamental truth that Whitehall reform is not a nice to have, it is the difference between succeeding and failing.

Keir Starmer has realised that admirably fast. “The system”, he argued, has given rise to a “cottage industry of checkers and blockers”; it has allowed too many in Whitehall to be “comfortable in the tepid bath of managed decline”.

Those who see Whitehall reform as a technocratic exercise are inadvertently endorsing the ever-expanding technocracy that runs Britain. In personally pledging to change that, the PM has understood that decision-making should sit with democratically accountable ministers, and that they must own the tough trade-offs that come with prioritising some things over others.

But to equip ministers to deliver for the public, alongside paring back Britain’s quangocracy and reigning in the regulators, the Government must radically remodel Whitehall itself. That means attracting and retaining top talent, and aggressively addressing poor performance; taking political staffing seriously, and embracing outside expertise; reappraising risk in order to adopt technologies, build faster and innovate; and it means explicitly tying resource and accountability to ruthlessly pursue the Government’s priorities.

In 1942, Beveridge stated: “a revolutionary moment in the world’s history is a time for revolutions, not for patching”. We are once again facing such a moment – anaemic growth, global insecurity, public disillusionment. We must again remake the State.

**CHARLOTTE PICKLES, DIRECTOR, REFORM**

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# Introduction

The Government has woken up to the urgent need for radical reform of the British state. The Prime Minister has promised to “rewire the state”, to deliver the seismic shifts expected by the public and to put Britain back on course for growth and prosperity.

The starting gun for deep reform has been fired, starting with clamping down on unaccountable public bodies, reducing the regulatory cost burden, automating public services, and building an agile state with an “active government”.

Across the West, nations are grappling with similar challenges. In America, the result is radical and intense disruption driven by Elon Musk’s Department of Government Efficiency. In Germany, the parliament is considering fundamental reform of the Bundesbank’s constitutional cap on borrowing to finance an additional \$220 billion of defence investment.<sup>1</sup> All across Europe other nations are similarly grappling with the challenges of adapting to a world where the USA will not guarantee their security, whilst continuing to deliver on their existing priorities – requiring the State to operate at maximum capacity.

In Britain, the Prime Minister has rightly diagnose that the State has grown “bigger but weaker”,<sup>2</sup> and is failing to deliver for the British people. The public are paying more and getting worse services in return. And when public services fail, and government is unable to respond at pace to a rapidly changing world, economic growth is suppressed. Crumbling national infrastructure, sluggish law making, burdensome regulation, the lack of skills skills, poor health, all stymie the economy. Radical reform of the British State is, in short, a fundamental precursor to growth.

Many civil servants show up every day determined to do their best for their country. But they are stuck in a system which doesn’t help them succeed, and is no longer fit for purpose for the challenges of the modern world.

Previous government increasingly outsourced the most challenging decisions to public bodies and regulators, few of whom have incentives to prioritise growth.<sup>3</sup> We have created a planning system where it’s too easy for groups of naysayers to block urgently needed housing and infrastructure. And poorly-developed legislation has opened whole parts of government decision-making up to judicial review, stopping change and stifling dynamism.

At the same time, the Government is trying to take on historic challenges – an ageing population, climate change and geopolitical instability and war – without having the talent and expertise it needs at its disposal.<sup>4</sup> The civil service is no longer seen as an attractive career by many of the best and the brightest. Yet more than ever, the State needs exceptional talent to seize the opportunities of emerging technologies like AI, deliver complex energy and infrastructure projects, and navigate the challenges of global conflict and trade wars.

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<sup>1</sup> Reuters, *Bundesbank Proposes Debt Reform That Could Add 220 Billion Euros to Spending*, 2025.

<sup>2</sup> Keir Starmer, *PM Remarks on the Fundamental Reform of the British State: 13 March 2025*, 2025.

<sup>3</sup> Patrick King and Alice Semark, *Quangocracy: The Future of Public Bodies* (Reform think tank, 2025).

<sup>4</sup> Joe Hill, Charlotte Pickles, and Sean Eke, *Making the Grade: Prioritising Performance in Whitehall* (Reform, 2024).

Past crises have engendered fundamental change in the building blocks of the State. With the recent crises of Brexit and the pandemic, and war in Ukraine, we are long overdue another – and the future health and prosperity of the country depends upon making that change happen now.

True mission-driven government demands nothing short of a State which can respond with speed and competence to the challenges we face. Building state capacity is vital to supporting a growing economy and stewarding it through a rapidly changing world.

To take back control of the government machine, there are nine steps that must be taken:

1. Make every pound count
2. End the culture of groupthink
3. Support ministers to lead
4. Hire the best and the brightest
5. End the merry-go-round of poor performance
6. Scale up technology and automation
7. Be a better buyer
8. Rationalise the public body landscape
9. Hold the permanent civil service accountable

## 1. Make every pound count

With public debt now at 100 per cent of GDP, and the costs of servicing it higher than either the budgets for defence or education, it is crucial every pound of government spending achieves its maximum impact.<sup>5</sup> Money that is wasted, or spent inefficiently, is money that could otherwise have been used to improve people's lives – to close the educational attainment gap, support people into work, deliver healthcare and keep the public safe – all of which would contribute to creating the conditions for growth. Value for money is not a technical, 'nice to have'; it is the moral imperative which upholds the social contract.

As the accounting officers, permanent secretaries should be able to justify each pound their department spends, based on performance and evaluation information. Ministers should be able to view data dashboards to identify poor programme performance and move monies accordingly. The Treasury should be applying vigorous evaluative standards to spend sign-off.

- If a policy or programme is particularly novel or transformative, the department must develop a clear rationale, future plans for evaluation, and how it will identify if implementation is on track, all as part of the value for money assessment.
- Each department should have a named individual in their executive team whose brief includes accountability for the use of robust performance information in decision-making.
- There should be clear expectations that set out when and under what conditions evaluations must be published by departments. In the interests of transparency, these rules should adhere as closely as possible to a principle of 'publish by default'.

## 2. End the culture of groupthink

The similar social and professional backgrounds of civil servants, strict hierarchies of Whitehall, and privileging of policy knowledge over experience in delivery and implementation has, over time, led to a culture of groupthink – which is too often defensive against different ways of working and sceptical of outside input and scrutiny.

For Whitehall to challenge this status quo, and innovate, there must be much greater openness to different perspectives, and new and disruptive ideas. Rather than stage-managing external engagement, it must be receptive to direct feedback, even when it contradicts previously received wisdom. Particularly for ambitions as important as its five missions, the Government should prioritise a diversity of independent advice, including by combining insights from across sectors and industries, and not always turn to the 'usual suspects' in developing new policies and programmes.<sup>6</sup>

- Secretaries of State should make much greater use of departmental non-executive directors and expert councils to test their thinking, provide ongoing support and constructive challenge.

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<sup>5</sup> Office for Budget Responsibility, 'A Brief Guide to the Public Finances', Webpage, 2025.

<sup>6</sup> Patrick King and Sean Eke, *Mission Control: A How-to Guide to Delivering Mission-Led Government* (Reform, 2024).

- Independent ‘red teams’, assembled for their cognitive diversity and breadth of experience, should be used to stress-test the Government’s most significant commitments.
- Officials should be actively rewarded, including financially, for innovating and putting forward new ideas, at all levels of the Civil Service. There should be much more widespread use of sandboxes, that allow for experimentation outside the usual formal processes and procedures.

### 3. Support ministers to lead

The public expect ministers to answer for the performance of government and, ultimately, for the buck to stop with them if things go wrong. Despite this, ministers are often unable to drive change in line with their priorities, and have far less flexibility to hire their own staff than counterparts in other countries. Too often, political appointments, including special advisers, are seen as a ‘necessary evil’ by the Whitehall system, to be limited wherever possible, rather than as a valuable asset in helping ministers keep promises made to the electorate.

Ministers have some of the most consequential jobs in the country. We should ensure they have every possible support to execute this role.

- Junior ministers with the most challenging, broad and/or priority briefs should be allocated special advisers to support their work, regardless of whether they are members of Cabinet. They should be jointly appointed by the Secretary of State and junior minister.
- A budget for politically appointed roles should be set for each department based on need. This should take into account the workload of the department, the degree and complexity of expected reforms, the political sensitivity of that department’s work and its legislative agenda. This should mean the appointment of significantly more, and more experienced, advisers.
- There should be an immediate, significant uplift in the pay of special advisers, to enable ministers to attract experienced, expert and domain-specific advice. For the most senior special advisers, salary bands should be raised to match those of senior civil servants.

### 4. Hire the brightest and best

Historic times need exceptionally talented people to solve the biggest challenges. Whitehall should be where the best and the brightest go to serve their country – either for a whole career or for shorter “tours of duty”<sup>7</sup>. But too often, the culture of government discourages capable people from joining, staying and progressing. The best officials stay in spite of a system which does not support them. Whitehall suffers from a culture which fails to take top talent seriously

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<sup>7</sup> Pat McFadden, *Pat McFadden Vows to Make the State ‘More like a Start up’ as He Deploys Reform Teams across Country*, 2024.



and is often impenetrable to external hires – only 20 per cent of appointees to the Senior Civil Service are from outside government.<sup>8</sup>

This approach is anathema to the most successful companies in the world, which recognise that not everyone contributes equally, and exceptional talent needs to be rewarded exceptionally. High performers should be nurtured and supported to rise quickly – including specialists with expert technical skills and knowledge – and top talent from outside should be enticed and headhunted to join. It should be more commonplace for Ministers to appoint expert advisers at senior levels, outside of the usual constraints.

- The most capable people should be placed on exclusive, bespoke talent schemes for both future leaders and exceptional specialists, with appropriate pay models including non-consolidated performance-related payments and in post pay progression. Talent scheme participants' careers should be managed, focused on roles in critical and priority roles.
- Compensation packages should be developed to attract top talent to join the civil service on modernised terms and conditions which trade a less generous pension for higher pay.
- The civil service should launch a highly competitive Mid-Career Fast Stream to bring in a new generation of future leaders with experience outside of Whitehall.

## 5. End the merry-go-round of poor performance

At the other end of the spectrum, Whitehall has a serious performance problem. Previous governments have taken the easy but counterproductive options of headcount reduction targets and hiring freezes, but have neglected the quality of that workforce, and allows poor performance to persist.

Research has revealed a system in which managers are disincentivised from acting on routine underperformance, instead passing them around the system.<sup>9</sup> Risk-averse HR and legal teams would prefer to tolerate ongoing failures rather than incur the reputational and financial cost of performance managing people out, even if the former is far more costly in wages, productivity and workforce frustration in the long run. Indeed, the group most affected by this are hard-working, committed civil servants who pick up the pieces of repeat poor performance and see no action from management. Last year 87 per cent of line managers *Reform* surveyed reported not feeling the civil service takes poor performance seriously.<sup>10</sup>

The Government's plan to use "mutually agreed exits" to align the civil service with the private sector in paying officials to leave is a good first step,<sup>11</sup> but they need sustained focus to root out those performance issues in the first place.

- Basic standards need to be introduced for how Whitehall departments manage performance through twice-yearly processes, with clear, standardised ratings and

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<sup>8</sup> 'Civil Service People Plan 2024-2027', 10 January 2024, [https://assets.publishing.service.gov.uk/media/65eaf2335b6524cb5ff21aa8/Civil\\_Service\\_People\\_Plan\\_2024-2027\\_Web\\_FV.pdf](https://assets.publishing.service.gov.uk/media/65eaf2335b6524cb5ff21aa8/Civil_Service_People_Plan_2024-2027_Web_FV.pdf).

<sup>9</sup> Hill, Pickles, and Eke, *Making the Grade: Prioritising Performance in Whitehall*.

<sup>10</sup> Ibid.

<sup>11</sup> Kate Whannel and Iain Watson, *Civil Service Reforms Will Be Radical, Minister Vows*, 2025.

formal performance improvement plans triggered a maximum of six months after performance concerns are raised.

- Legal advice in employment cases should be focused on the likelihood of a tribunal case being successful, not the likelihood of being taken to tribunal, and there should be a higher risk appetite for doing so.

## 6. Scale up technology and automation

A twenty-first century state can't run on twentieth-century technology. But in many areas the British State is still catching up on the last digital revolution as the private sector gets underway with the next one: AI adoption. Every day the citizens and businesses pay the price of dealing with outdated processes: manual, paper-based and poor-quality interactions with the State are sucking up time and resource that could be allocated elsewhere. Interacting with the State, whether as an individual or a business, should be quick, easy and accurate.

Peter Kyle is right to be ambitious and aim for £45 billion of savings and productivity improvements.<sup>12</sup> There are certainly big savings to be had, but to realise them the Government should start with the kinds of technology which are already proven to deliver efficiencies, before moving on to the longer-term potential of frontier technologies.

To succeed where previous governments have failed, the Government must overcome the “pilotitis” and risk aversion which paralyses the public sector, and adopt technology at scale.

- The Government should invest in an AI Transformation Fund to flexibly finance these projects from pilot stage to scale.<sup>13</sup>
- Government guidance should be revised to evaluate the performance of automated systems against the performance of current public servants, rather than idealised perfect performance levels. Technological innovation comes with risk, but the risk of doing nothing is higher than ever.

## 7. Be a better buyer

The State spends nearly £400 billion on buying goods and services, but public procurement is littered with cases of waste, failure and bad value for money.<sup>14</sup> Yet successive Governments have seen procurement as a lever to promote other priorities, and overlooked whether it's achieving its main purpose – getting the things it needs at a good price.<sup>15</sup>

Too often, public procurement is either over-specified, and doesn't partner with the private sector to design the best solution. And in many other cases, it is far too under-specified and under-managed, and the State is effectively captive to large companies, with little capability to get the best deal for the taxpayer.

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<sup>12</sup> Department for Science, Innovation and Technology, 'State of Digital Government Review', January 2025.

<sup>13</sup> Joe Hill and Sean Eke, *Getting the Machine Learning: Scaling AI in Public Services*, 2024.

<sup>14</sup> Cabinet Office, *New Public Procurement Rules to Drive Growth, Opportunities for Small Businesses and Exclude Suppliers That Fail to Deliver*, 2025.

<sup>15</sup> Joe Hill, *The Price of Everything: A Plan for the Office for Value for Money*, 2024.

The new Procurement Act clarifies new areas of flexibility which the public sector needs to take advantage of, such as the Competitive Flexible Procedure. But the Government should go further to reduce cost and improve outcomes.

- There should be a significant rationalisation of the procurement process to focus on getting the best value for money above all else.
- This should include procuring more high-volume products through Advance Market Commitments, and reviewing whether social value assessment in procurement represents good value for money.

## 8. Grip the public body landscape

Arm's-length bodies, which operate outside the direct control of ministers, are now responsible for around 60 per cent of day-to-day spending, and manage some of the most complex and high-risk parts of the State.<sup>16</sup>

Despite the importance of these functions, and the fact that public bodies employ nearly 400,000 people, independence is confused with unaccountability and scrutiny is woefully inadequate. Recent, high-profile failures of public bodies such as the Care Quality Commission and HS2 Ltd, and egregious examples of infrastructure being blocked or absurd additional costs being added, demonstrates the need for urgent action – and the Government has committed to taking it.

- The 'sponsorship teams' that oversee public bodies in departments should be significantly beefed up, and equipped with the skills and seniority needed to monitor and drive-up performance.
- The tests for creating new quangos should be much stricter, and more transparent, with core delivery functions retained under ministerial oversight.
- These tests should be reapplied to existing quangos with a view to rationalisation, including merging bodies where unnecessary duplication is increasing costs to the taxpayer, businesses and households.

## 9. Hold the permanent civil service accountable for reforming the State

The Cabinet Secretary and permanent Civil Service are responsible for the health and long-term effectiveness of the machinery of government. The job of reforming the State should be their core responsibility.

But reforms announced by Ministers and senior civil servants alike fail to get purchase on Whitehall. Reviews of the civil service going back over 150 years all identify the same problems.<sup>17</sup>

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<sup>16</sup> King and Semark, *Quangocracy: The Future of Public Bodies*.

<sup>17</sup> Charlotte Pickles and James Sweetland, *Breaking down the Barriers: Why Whitehall Is so Hard to Reform* (Reform, 2023).

The Government must take care that their plans don't go the same way. Officials must own the agenda of civil service reform, but ministers must ensure that they are accountable for it being delivered. Without this drive, an appreciation for the barriers to civil service reform, and bringing permanent secretaries on side, none of the changes listed above will be successfully and sustainably implemented.<sup>18</sup>

- The Prime Minister should publicly set out the mandate for Whitehall reform and milestones expected of the Civil Service, building on the Plan for Change. This should be jointly signed by all permanent secretaries and continuously referred to as a foundational document.
- Permanent secretaries should be held to account for delivering civil service reform, based on KPIs given to each department. Parliament should monitor progress against these KPIs through departmental select committees.
- The corporate centre of government – particularly No.10 and the Treasury – must visibly drive State reform, granting permission to innovators and applying political pressure to blockers, to see it through.<sup>19</sup>

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<sup>18</sup> Ibid.

<sup>19</sup> Ibid.

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# Conclusion

Getting Britain growing is rightly the Government's number one priority – growth means jobs and rising wages, and public services are funded from the proceeds of growth. Growth is, quite simply, the only route to national prosperity.

But driving growth is a joint endeavour between the State and the private sector. Without an effective, efficient and agile State, businesses and investors do not have the conditions to flourish – from a skilled workforce to smart regulation, core infrastructure to a healthy population, the State's role directly impacts the economy.

The Government is therefore absolutely right to try and shake up the system and build a Whitehall model that looks more like a “start up”.<sup>20</sup> In practice, that means overhauling an outdated system that stifles innovation, blocks speed and disincentivises talent. It means gripping the key levers of decision-making, not outsourcing them, and embracing accountability.

Recent governments have learned the lessons of failing to reform the State the hard way, finding themselves over-promising and under-delivering for the public. Newly elected governments have not grasped the fundamental truth that in order to deliver their priorities, they must rethink and profoundly reform the fundamentals of how the State works. Rewiring the State is an essential prerequisite for fixing the country.

The Government are clearly awake to the need to reform the State as an essential building block to growth, and for the impact of that growth to be felt in better frontline services. There is still time to get it right, but it will mean being bold, and taking on vested interests for whom the status quo works. The job of making the State ready for mission-driven government will be a mission in itself, and must run through everything the Government does.

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<sup>20</sup> McFadden, *Pat McFadden Vows to Make the State 'More like a Start up' as He Deploys Reform Teams across Country*.



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