



Office for Value
for Money

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Dear Gareth,

Thank you for the National Audit Office's (NAO) ongoing engagement with the work of the Office for Value for Money (OVfM). I appreciate your continued insights and challenge on how we can best tackle known value for money issues within government, based on the NAO's wealth of experience and expertise. I am also grateful for the input and feedback provided by your teams on the OVfM's value for money studies into specific high-risk areas of cross-departmental spending.

As you know, Autumn Budget 2024 formally launched the OVfM as a time-limited organisation, with an initial term of a year. It set out that the OVfM would advise the Chancellor of the Exchequer and the Chief Secretary to the Treasury on decisions for Spending Review 2025 (SR25), including through:

- conducting an assessment of where and how to improve efficiency, working with departments across government;
- undertaking a small number of value for money (VfM) studies in specific high-risk areas of cross-departmental spending; and
- scrutinising a subset of capital and invest to save investment proposals to ensure they offer VfM.

Autumn Budget 2024 also said that the OVfM would develop recommendations for reforms to improve the value for money of public spending.

With the publication of SR25 tomorrow, I wanted to take this moment to set out what the OVfM has achieved so far, and what it is planning to achieve over the remainder of the year.

In undertaking these activities, the OVfM has worked in line with the operating principles set out in the government's response to the Treasury Committee's report on the Office for Value for Money – namely that we will:

- diagnose and tackle the root causes of value for money issues, rather than the symptoms;
- work in partnership with departments across government to make long-lasting changes; and
- deploy resources efficiently to target areas where the OVfM can have most impact, rather than duplicating the work of others.

My judgement remains that this approach is appropriate given the nature of the OVfM as a small, time-limited organisation that is not intended to be a permanent addition to the government's existing structures and frameworks. This approach has also driven many of our judgements about how best to deliver against the mandate set by the Chancellor of the Exchequer.

Driving efficiencies

As set out above, Autumn Budget 2024 announced that the OVfM would conduct an assessment of where and how to improve efficiency across government. In considering how best to deliver this commitment, I was determined to learn the lessons of the past. This includes reflecting on one of the findings of the NAO's 2024 report *Lessons learned: a planning and spending framework that enables long-term value for money*:

"[s]pending decisions must be based on realistic assessments of deliverability and affordability... [a] competitive approach during spending reviews may incentivise officials to use unrealistic costs and benefits to gain approvals, including over-ambitious in-year plans for efficiencies ... we have seen little evidence of rigorous internal follow-up and accountability for promised efficiencies."

In consultation with others across government, I concluded that the OVfM should work with departments to agree technical efficiency targets to be delivered over the Spending Review period. Crucially, I wanted these targets to be underpinned by credible plans that could be published at SR25, encouraging more realism and deliverability, and enabling greater external scrutiny, public accountability and sharing of best practice.

This approach differs from recent efficiency drives in a number of ways:

- *Outcomes not cost-cutting.* The targets only include technical efficiencies (delivering more output for the same input, or the same output for less input), and do not include stopping activities (reducing outputs). As a result, the quality of public services will either be maintained or enhanced through this exercise, and the focus will be on driving up value for the taxpayer.
- *Plans not just targets.* We have supported departments to develop credible delivery plans to underpin the targets, including through harnessing cross-government expertise in the functions. While we have not undertaken a detailed audit of each department's plans, this is a significant step forward in terms of providing confidence in the deliverability of their commitments. Departments will report on their progress via the usual Government Efficiency Framework reporting

arrangements, enabling delivery to be tracked, and as noted further below, the government has agreed that publishing such plans will be a part of future spending reviews.

- *Bespoke not one-size-fits-all.* We set a minimum expectation, based on wider good practice, of delivering 1% efficiencies per year over the Spending Review period, which was subject to agreeing bespoke targets with departments. This allowed us to reflect the specific circumstances facing departments, including the availability of investment to drive efficiencies, the types of opportunities available within the department, and the extent to which departments could draw from existing plans.

Value for Money studies

Autumn Budget 2024 also announced that the OVfM would undertake VfM studies to inform SR25, focused on high-risk areas of cross-departmental spending.

In taking forward these studies, my team put in place some key principles.

- First, we should only undertake a small number of studies. This was proportionate to the time and resources available between the launch of the OVfM in October 2024 and the conclusion of the SR this June, and would maximise our chances of delivering meaningful actions on an SR timetable.
- Second, we should select studies in areas where there were known VfM issues, rather than seeking to identify areas through our own analysis. Again, this was necessary given constraints on time and resource. But much more importantly, this would also allow us to make the most of existing analysis in the public domain, in particular recent NAO reports.
- Third, we should only undertake studies where relevant departments were supportive, ensuring a spirit of partnership in building the evidence-base and undertaking policy development. The Chief Secretary to the Treasury agreed the terms of reference for the studies with relevant Secretaries of State, which were published in March.

Following a review of recent NAO and thinktank reports, and consultation widely across government, the Chief Secretary to the Treasury agreed with the OVfM's recommendations to undertake studies on the governance and budgeting arrangements for mega projects, and the procurement of short-term residential accommodation. Over recent months we have worked openly across internal and external stakeholders to develop an agreed government position on measures to address known VfM issues in these areas. The outcomes of these studies will be published shortly.

Scrutinising investment proposals

Autumn Budget 2024 announced that the OVfM would scrutinise investment proposals ahead of SR25. In determining the best role for the OVfM to play, I was mindful that the

SR already involves a substantive and extensive set of assessment and approvals processes in relation to investment proposals, that we should not seek to duplicate.

Therefore, instead of scrutinising all investment proposals submitted by departments, the OVfM selected a subset guided by ministerial priorities and the judgement of Treasury spending teams about where our insight would be most likely to inform decision-making. This included invest-to-save proposals being considered for investment through the Transformation Fund, and capital programmes where spending teams identified specific value for money or delivery concerns. In line with our principle not to duplicate the work of others we did not review HS2, Sizewell C and Dreadnought, as they are already subject to extensive review processes.

To support our assessment process, the OVfM developed a short set of appraisal criteria to inform its assessment of investment proposals, which it shared with departments and published in March. The aim was to condense existing guidance into a set of common-sense questions that focus on the key issues. The criteria covered all forms of investment, including major projects, maintenance, grants, financial transactions, and invest-to-save initiatives. My team and I used these criteria in forming our assessment of the subset of investment proposals selected for scrutiny, working with NISTA where appropriate.

The OVfM's assessment was not used to inform prioritisation decisions by ministers, nor was it intended to act as a bar that needed to be met in order to secure funding. Instead, it aimed to expose key risks, to inform ministers and so that the Treasury could put in place mitigations where necessary where ministers decided to proceed with projects. This will ensure that programmes that do go ahead are more likely to be delivered successfully, and realise their potential benefits.

My mandate is to provide private advice to the Chancellor of the Exchequer and the Chief Secretary to the Treasury. As a result, the specific projects that were considered, and the conclusions reached, will not be made public. But together with NISTA, the OVfM will consider any potential reforms that could address lessons learned from this exercise.

Reforms to encourage value for money in public spending

The Chancellor of the Exchequer and the Chief Secretary to the Treasury set up the OVfM because there are known longstanding VfM issues in the current system, and the start of a new Parliament and a multi-year SR process presents an opportunity to address them.

As you know, the government has already accepted the OVfM's recommendation to introduce a programme of thematic VfM reviews in the years in between spending reviews. This will help government to address one of the findings from the NAO's report *Lessons learned: a planning and spending framework that enables long-term value for money*: "departments, [arm's-length bodies] and local government are spending money on related but uncoordinated activities and initiatives, which reduces overall value for money and leaves gaps in delivery and risk management." The Institute for Government's report *How to run the next multi-year spending review* similarly said that "Spending reviews have not been set up to align spending with cross-cutting priorities."

Thematic VfM reviews will help build the evidence on issues and potential solutions in specific areas of public services, and identify how to reduce costs and/or improve outcomes, providing ministers with a more developed and comprehensive set of options to consider during the subsequent spending review. The subject of the thematic reviews to take place in 2026 will be announced in the autumn. The design and implementation of these reviews will learn lessons from the VfM studies conducted as part of SR25. This includes, for example, the importance of publishing terms of reference to enable government to engage with a wide range of external stakeholders to refine thinking on the drivers of issues, and the potential solutions.

The OVfM has also recommended that the government requires all departments to deliver at least 1% per year technical efficiencies on an ongoing basis, and to publish bespoke technical efficiency targets underpinned by credible delivery plans. This recommendation has been accepted by the government, and is intended to embed a culture of continuous improvement.

Next steps

I would be grateful for any reflections you have on our progress to date, and any lessons that you believe we should learn from our input into SR25.

The OVfM is continuing to review the spending landscape to develop other potential reforms that could improve the value for money of public spending, and will be working to embed the agreed reforms to public spending with clarity on where future responsibility will lie. As we develop our work programme for the remainder of the year, I would also be grateful for your views on where we should focus our efforts to make as much impact as possible.

With kind regards,



DAVID GOLDSTONE CBE
INDEPENDENT CHAIR OF THE OFFICE FOR VALUE FOR MONEY