

FOR PUBLIC SECTOR TRANSFORMATION LEADERS

Leading Operational Transformation in the Age of AI

How public sector leaders can deliver change, build capability and create resilient organisations in an era of unprecedented pressure

£45bn

Unrealised annual productivity potential

5

Strategic imperatives for transformation

70%

of Grayce Consultants transition to permanent roles

EXECUTIVE SUMMARY

The Public Sector is at a Turning Point

Ageing systems, skills shortages and funding mismatches are holding back transformation. The mandate is clear: use AI and digital capability to modernise services, remove inefficiencies and improve citizen outcomes.

Official estimates project the full potential of digitisation at over £45 billion per year in unrealised savings, applying a realistic ceiling of around 90% digital adoption and accounting for delivery risk. This is what is achievable, not a best-case scenario.

£45bn

per year in realised productivity gains available through digitisation of public services



THE REALITY GAP

Ambition is outpacing delivery. Three structural constraints explain why.

Legacy Systems

Outdated infrastructure limits progress and absorbs up to 50% of IT budgets in maintenance

Skills Shortages

The UK civil service has fewer than half the DDaT professionals needed to meet baseline objectives

Funding Mismatch

Capital vs. resource expenditure rules structurally favour maintaining old systems over building new ones

Pilot Purgatory

Only 20-25% of AI proofs of concept reach operational deployment, with 45% generating no systemic value

FOUR PRODUCTIVITY STRATEGY COMPONENTS

Task Automation via
Gen AI

Citizen Digital
Channel Shift

Workforce Model
Shift

Fraud & Error
Reduction

Sources: State of Digital Government Review, The State of AI in 2025: From Pilots to Transformation – What the Latest McKinsey Report Reveals, Mckinsey, The State of AI in 2025

THE CRISIS OF CAPABILITY

Human Capital is the Single Biggest Constraint

Technology doesn't deploy itself. The most consistent blocker on public sector transformation is not funding or technology - it is people with the right skills to deliver it. Every element of the £45bn agenda depends on closing this gap.

38%

of organisations lack the digital skills needed to meet their objectives

34%

report a critical shortage of data engineering skills - blocking AI at scale

60%

of organisations report a significant AI knowledge gap in their workforce

70%

of UK government bodies cite internal skills shortage as the primary barrier to AI adoption

Recruitment Redundancy Failure: 38% of civil service competitions for specialist digital roles close with only one appointable candidate - leaving no resilience if that person leaves.

Sources: State of Digital Government Review, 2025; Closing the Digital Skills Gap, Experis 2025, Mckinsey, The State of AI in 2025

LEGACY TECHNICAL DEBT

Legacy Technology: The Greatest Single Barrier

£2.3bn

spent on legacy IT every year - around 50% of total government IT budgets

70%

of technology estates in citizen-facing departments are legacy systems

3-4x

more expensive to maintain legacy systems than modern alternatives

THE LEGACY TRAP CYCLE

- Budgets absorbed by maintenance
- Investment in innovation is delayed
- Risk accumulates over time
- CDEL/RDEL mismatch between budgeting cycles and real departmental needs that locks teams in

From Pilot Purgatory to Operational Delivery

Two foundational shifts that unlock the transformation agenda



1

Overcome Pilot Purgatory via Enterprise Process Re-engineering

Around 70% of government bodies are piloting or planning AI, yet only 20 to 25% of proofs of concept make it to operational deployment. The barrier is not technology; it is the failure to design for scale from the outset. Legacy constraints, cultural resistance and fragmented ownership keep initiatives trapped in testing.

Moving beyond pilot purgatory requires genuine process re-engineering, not incremental bolt-ons. Nearly half (45%) of current government AI tools operate as standalone personal aids, generating no systemic value.

20-25%

of AI pilots reach live operational deployment. The rest stall before generating real value.

2

Shift the Consultant Retention Model

The UK government spent £3.4 billion on private consultants in 2023 to 24, a rise of more than 60% over five years. When contractors roll off, institutional knowledge leaves with them. Departments are left re-commissioning the same expertise for the next cycle.

The answer lies in models built for retention. Embedding Consultants within teams for extended periods, with deliberate skills transfer, means knowledge stays when the assignment ends. Grayce has launched over 1,800 careers and placed Consultants across 100+ client partnerships, with 70% transitioning into permanent roles.

£3.4bn

spent on private consultants in 2023 to 24, up 60%+ in five years, with knowledge leaving at every rolloff

3

Modernise Infrastructure Without Losing Momentum

Infrastructure modernisation fails in two predictable ways: organisations dress up the front end while the backend continues to decay, or they launch multi-year programmes that swallow budgets and deliver nothing visible. Neither is transformation. The only path forward is treating modernisation as ongoing operational discipline - not a project with a start and end date.

- Quick wins and structural investment must move in parallel
- Treat technical debt as a leadership balance sheet item
- RDEL headroom essential for continuous delivery

50%

of government IT budgets absorbed by legacy maintenance annually

4

Build an AI-Ready Workforce

More than half of public servants have received no AI training, and nearly half say their leaders have given them no guidance on how to use it. That silence has a cost: when organisations don't explain AI, their people fill the gap with anxiety. The departments that get this right aren't the ones with the best tools - they're the ones that tell a clear story about what AI is for and who benefits.

- Frame AI as augmentation, freeing staff for higher-value work
- Accessible training and visible leadership commitment
- Prioritise high-impact use cases with clear governance

54%

of public servants have received no formal AI training from their departments

5

Design Services Around Users, Not Systems

Citizens do not experience a technology estate; they experience a journey. Every unnecessary step, every dead end, every inaccessible touchpoint is a direct cost: to the citizen in time and frustration, and to the government in contact volumes and error rates.

- Design from the outside in, starting with citizen outcomes
- Measure completion rates, error rates, time to outcome
- Consolidate before you automate
- Resource offline channels properly and design for the 10%

90%

digital adoption ceiling is a design constraint, not a failure. Parallel offline provision is essential.

Where Does Your Organisation Stand?

Score each dimension on current operational reality, not programme plans or aspirations



	LEVEL 1 Aware	LEVEL 2 Developing	LEVEL 3 Scaling	LEVEL 4 Leading
AI and Automation	Isolated pilots; no enterprise plan	POCs linked to a roadmap; governance forming	Multiple live use cases; ROI tracked	AI embedded in core processes; continuous improvement cycle
Digital Channel Shift	Mainly paper or phone; no digital strategy	Digital option exists; adoption below 50%	60 to 80% digital; assisted digital in place	90%+ digital; proactive inclusion for remaining users
Workforce and Capability	Heavy consultant dependency; no retention plan	Knowledge transfer started; skills assessed	Internal capability growing; embed-to-per active	Self-sufficient DAAT function; consultants for surge only
Legacy and Infrastructure	Legacy estate undefined; no modernisation plan	Legacy mapped and risk-rated; roadmap exists	Modernisation underway; cloud adoption increasing	Architecture as discipline; continuous remediation budgeted
Service Design	Services designed around internal processes	User research used; some journey mapping	End-to-end journeys redesigned; accessibility met	Citizen outcomes define every design decision; data closes the loop

A note on using this model:

Transformation is only real when it is consistent. If a capability exists in one team but not across the organisation, that is Level 1 or 2, not 3. Use this as a starting point for a leadership conversation; the value is in the discussion it can prompt. For workforce capability conversations, a Grayce public sector expert can take you through both a maturity model needed, or examples of how we can facilitate consultants' transition once transformation programmes conclude.

CONCLUSION

From Ambition to Delivery: Five Things the Evidence is Clear On

1

Stop measuring AI success by pilot numbers. Measure by live, operational deployments generating systemic value. 40 proofs of concept is the appearance of progress, not progress itself.

2

Capability cannot be contracted out indefinitely. Every pound spent without a knowledge transfer plan is a loan, not an investment. The interest compounds.

3

Legacy is a leadership problem, not an IT problem. Systems are old because the decisions to fund modernisation have been deferred. Treat technical debt as a balance sheet liability.

4

The funding model must change or the transformation will not. Departments need RDEL headroom for continuous delivery, not just CDEL for one-off builds.

5

Service design is not a phase; it is the job. If citizen experience is not measurably improving, the transformation is not working, regardless of systems migrated or AI tools deployed.



HOW GRAYCE CAN HELP

Building Capability That Stays

Grayce deploys project-ready Consultants who embed within public sector teams for up to 24 months, delivering hands-on project support while building internal capability through deliberate, bidirectional knowledge transfer.

- Programme and project management across complex, multi-stakeholder transformation
- Digital | Data and Technology (DDaT) capability building and workforce transition
- AI adoption, process automation and change management
- Business analysis, requirements definition and process re-engineering
- Commercial and contract management in complex procurement environments

READY TO TALK?

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Leading change. Building capability that stays.

Specialists in public sector transformation, DDaT capability and AI adoption

2012

Over a decade of expertise

100+

Client partnerships

2,000+

Projects supported

1,800+

Careers launched

74%

Alumni in senior leadership
roles within five years

48%

Of our community identify
as female

Get in touch: publicsector@grayce.co.uk | www.grayce.co.uk

