

# The financial impact of improving government productivity

Government productivity is a key component to national productivity as it now controls 51% of GDP compared with 12% in 1912.

Productivity levels are low in the public sector. Between 1997 and 2019, public sector productivity increased by 4%. This compares with an increase of 24% for the service side of the private sector. And Covid exacerbated that gap: the latest data show an improvement in the private sector of 26% compared to a fall of 16% in government productivity.

If government productivity had matched that of the private sector, over £80 billion of public sector expenditure would have been saved in 2018/19 alone; that is more than is spent on defence, transport or policing.

Improving government productivity should be a priority for every government, as:

- It will improve the quality of public services
- It will release substantial funding which can then be used for further spending on public services or reducing the national debt or tax cuts.

## The key to productivity is the control of staff levels.

As Professor Parkinson demonstrated in two studies, government is not good at controlling staff numbers. As the table shows while the tonnage of ships and the number of sailors decreased, the number of administrative staff grew.

Year	Capital ships	The Admiralty <sup>1</sup>			
		Sailors	Dockyard workers	Dockyard officials	Admiralty officials
Change between					
1914 - 1928	-68%	-32%	+10%	+40%	+78%
1999 - 2021	-46%	-37%	-6%		+5%

<sup>1</sup> 1914-28 comparisons: Parkinson's Law and other studies in administration, Professor Northcote Parkinson, 1957. 1999-2021 EGF calculations.

The number of central government staff has increased dramatically from 2.3 million in 1999:

- by 42% to 3.3 million in March 2020 pre Covid
- by 55% to 3.6 million in June 2022 .<sup>2</sup>

The greatest percentage increases since 2009 were not in frontline workers but in 'head office' staff.

- NHS England increased staff from 9,000 in to 18,000 and
- The Cabinet Office from 2,290 to 10,200

But there has been no noticeable improvement in public services. For example, NHS staff increased from 1.2 million in 1999 to 1.78 million in 2020 and to 1.88 million today, increases of 51% and 59% respectively.

Yet, according to OECD data, the UK still has one of the worst health services in terms of patient outcomes of all developed countries (apart from the US), despite having a higher health spend, as a proportion of GDP, than most countries.<sup>3</sup> Over 7 million people are awaiting medical procedures.

### The controlling staff levels is a skill of experienced professional management.

When they apply the basic rules of good management, the results are dramatic. A Work Foundation study found that the average **output per person doubled** once professional management was in place and monopoly status was removed.

### Increase in output per person pre- and post- denationalisation 1979-94

British Coal	341%	Electricity	100%
BT	180%	Rolls Royce	100%
Cable & Wireless	123%	British Gas	73%
BAA	115%	British Airways	14%
British Steel	104%		

Not only were costs reduced, the quality of services dramatically improved as did consumer choice.

<sup>2</sup> ONS, [Public Sector Employment](#), September 2022.

<sup>3</sup> Civitas, [International Health Care Outcomes Index](#), 2022.

## Assumptions for the effect of a 1% change in Government productivity

Some items of expenditure have no effect on changes in productivity – pensions, benefits, interest on debt. The table below gives a broad brush estimate of the percentage of costs by sector that are amenable to changes in productivity.

It shows that 38% of expenditure is amenable to change and a 1% increase in productivity results in a cost reduction of around £4 bn on 2021/22 budgeted expenditure of £1,094 bn.

	Government spend 2021/22, cash basis £bn	% amenable to changes in productivity	Estimated savings for a 1% increase in productivity, £bn
<b>General public services</b>			
public and common services	17.5	85%	0.1
international services	11.3	0%	0.0
public sector debt interest	41.5	5%	0.0
<b>Total general public services</b>	<b>70.3</b>		
<b>Defence</b>	<b>44.6</b>	<b>85%</b>	<b>0.4</b>
<b>Public order and safety</b>	<b>38.6</b>	<b>85%</b>	<b>0.3</b>
<b>Economic affairs</b>			
economic development	127.3	0%	0.0
science and technology	7.6	25%	0.0
employment policies	2.6	25%	0.0
agriculture etc	6.4	25%	0.0
transport	45.1	25%	0.1
<b>Total economic affairs</b>	<b>189.0</b>		
<b>Environment protection</b>	<b>12.6</b>	<b>25%</b>	<b>0.0</b>
<b>Housing and community amenities</b>	<b>13.9</b>	<b>25%</b>	<b>0.0</b>
<b>Health</b>	<b>219.4</b>	<b>85%</b>	<b>1.9</b>
<b>Recreation, culture and religion</b>	<b>12.3</b>	<b>85%</b>	<b>0.1</b>
<b>Education</b>	<b>96.1</b>	<b>85%</b>	<b>0.8</b>
<b>Social protection</b>	<b>297.2</b>	<b>10%</b>	<b>0.3</b>
<b>Accounting adjustments</b>	<b>94.6</b>		<b>0.0</b>
<b>Total Managed Expenditure</b>	<b>1,094.4</b>		<b>4.2</b>

Sources: ONS, Walbrook Economics

### Reducing government spending by £80 billion a year

The denationalised companies achieved on average a 100% increase in productivity and a dramatic improvement in service quality and choice within five years.

Central government should be able to achieve at least a 20% increase, resulting in annual cost reductions of £80 billion which can then be used for further spending on public services, for reduction of the national debt or for cutting taxes, according to the priorities of the government of the day.