‘Lost in a productivity puzzle’

It is the perennial question which has defeated academics, economists, politicians and special advisers over decades: how to raise the UK’s productivity levels to match those of its principal competitors.

In a two-part report which we summarise below, Brexit Facts4EU explores the background to the current situation with a particular focus on public sector productivity, which, despite an increase in investment in real terms over many years, has actually FALLEN.

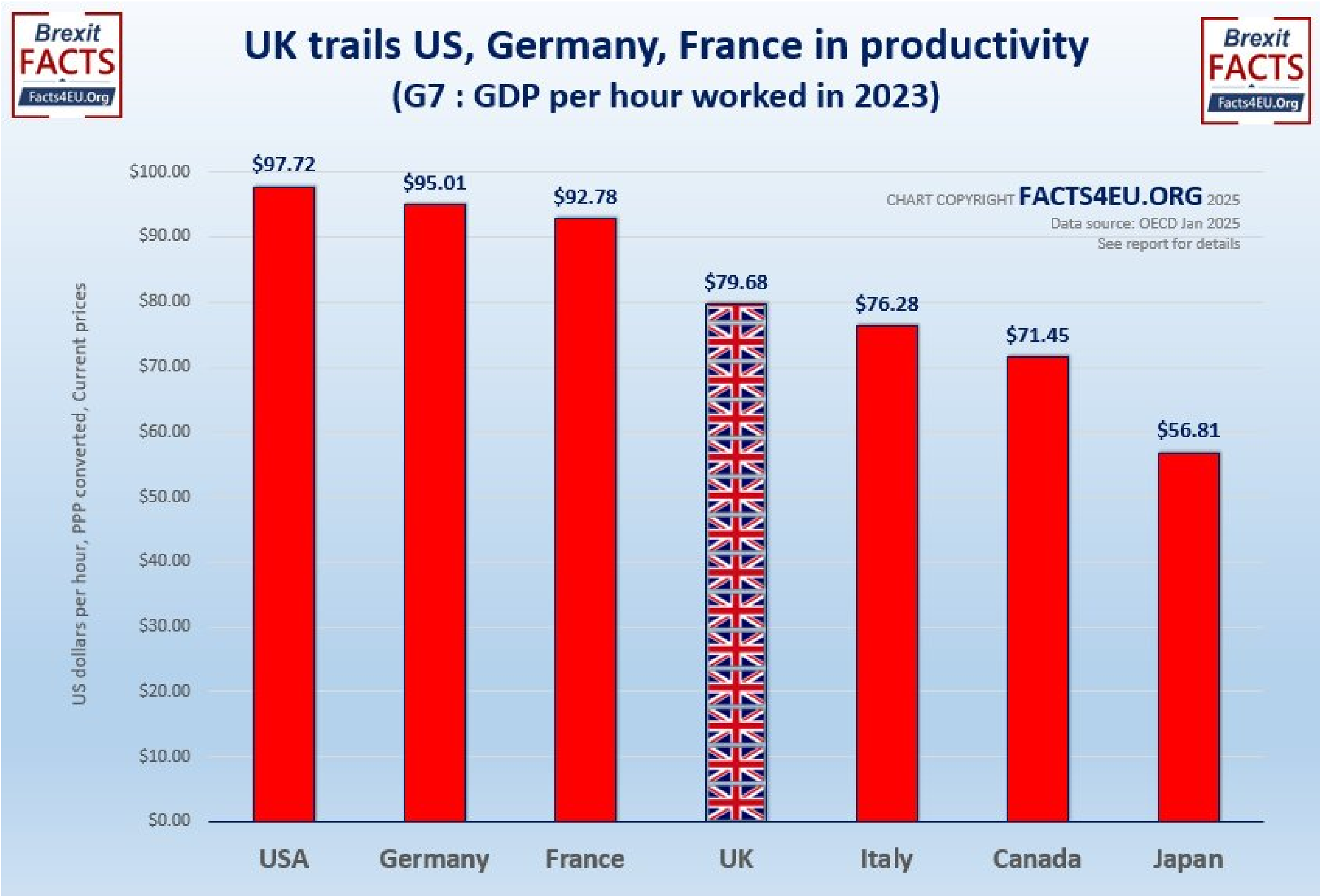
This is hugely concerning given the current government’s emphasis on investing in the public sector as the corner-stone of its economic policy. If the huge amounts of money going in are not producing the desired productivity outcomes we have been promised, where does Britain go from here?

We will continue to update readers on this vital issue as new data becomes available.

Part One – UK’s slowing productivity rate – what’s the problem and how does it affect us financially?

The international perspective – how did the UK do last year (2023)?

International Productivity – Output per hour worked in dollars, G7 countries compared



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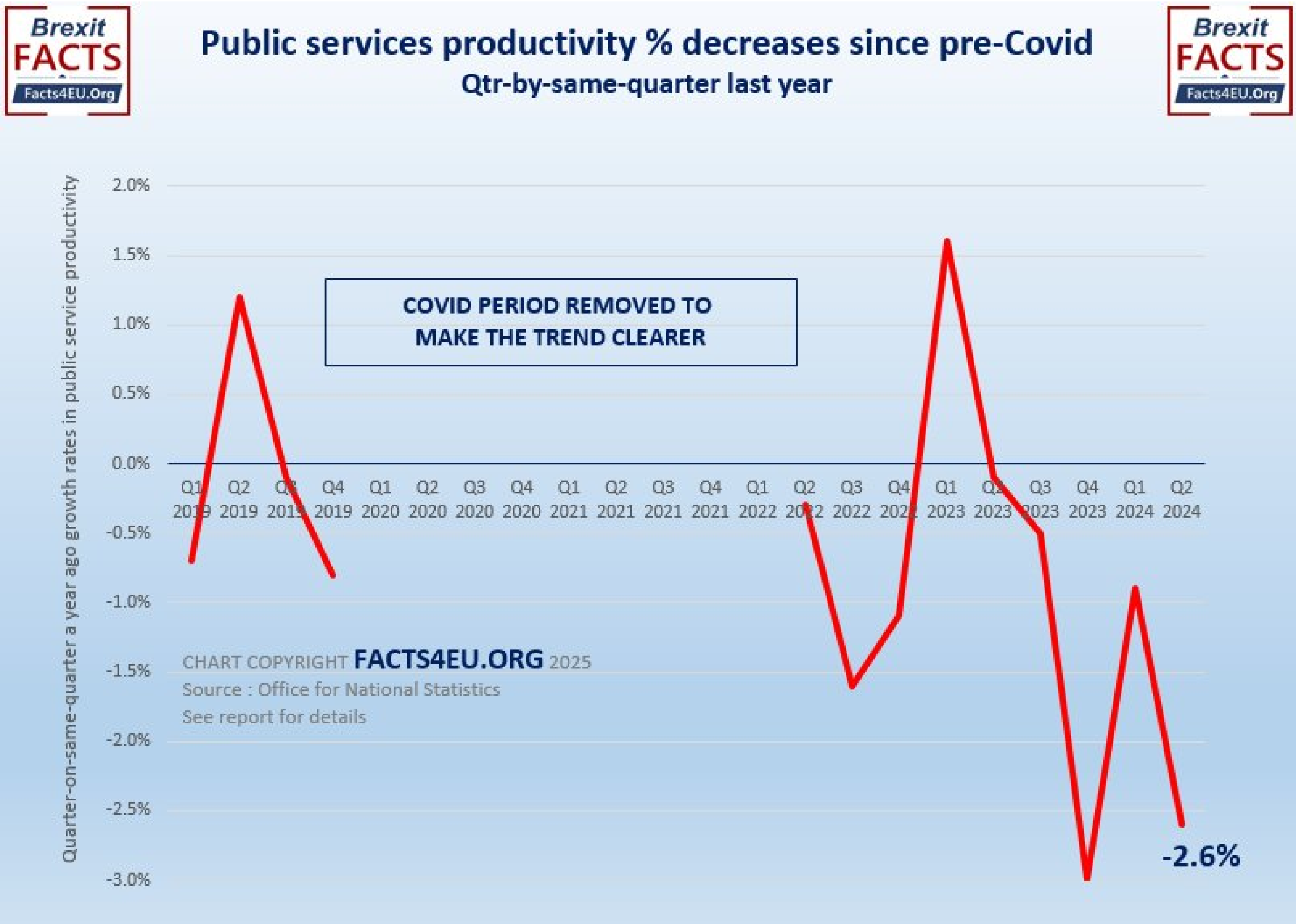
[Source: OECD, latest data for 2023.]

For a full analysis of the figures contained in Part One, click on the link **here**.

Please support our work:

Part two: Public sector productivity numbers are so bad they’re difficult to believe

Public service productivity UK: to Q2 (Apr – Jun) 2024



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[Sources: ONS | HoCL.]

These numbers are truly bad

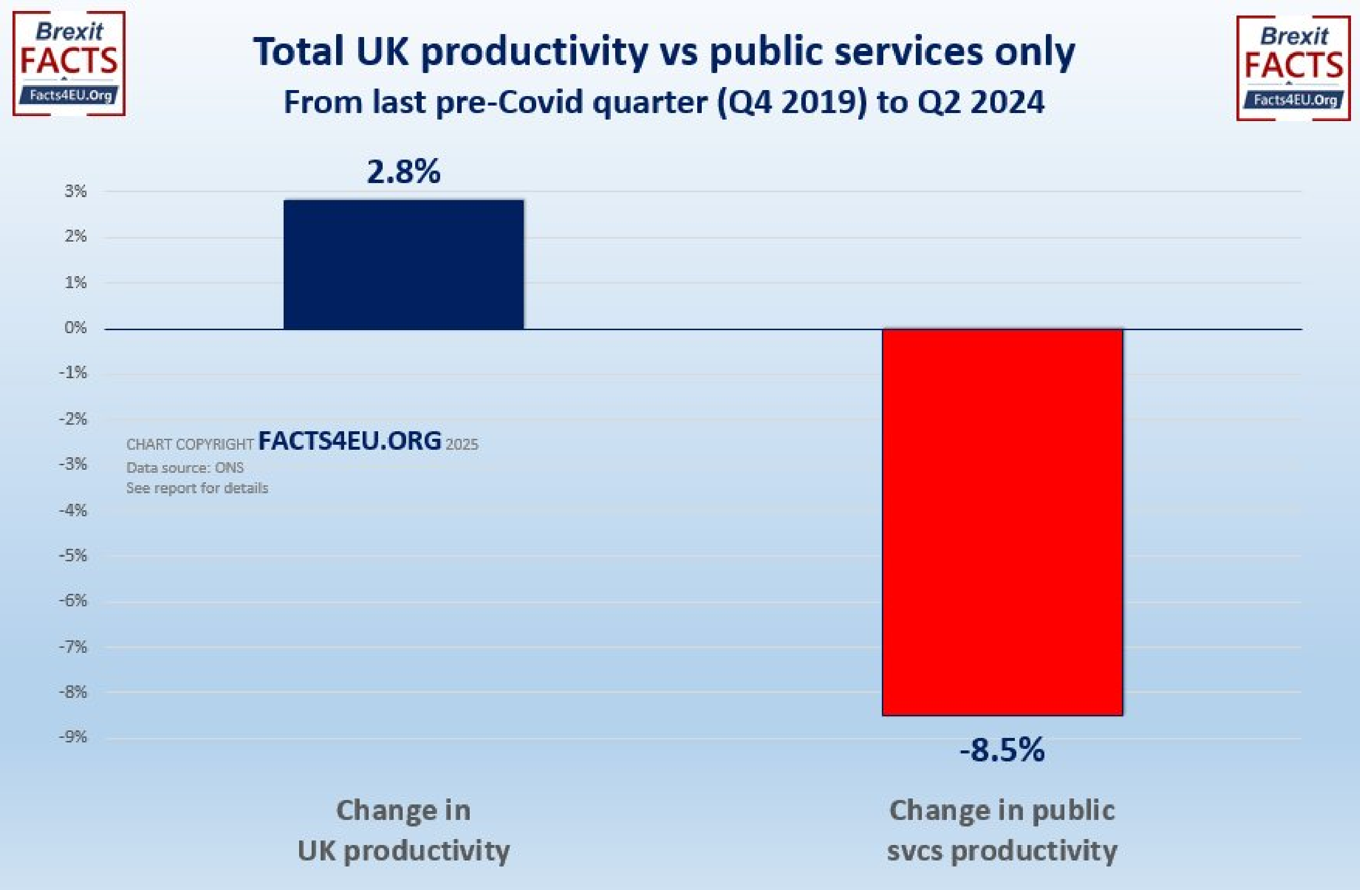
Public service productivity was estimated to be 2.6% lower in Quarter 2 (Apr to June) 2024 compared with the same quarter in 2023.

It gets worse: the falls are accelerating. Public service productivity fell by an estimated 1.2% in Q2 2024 compared with the preceding quarter, which in turn had fallen from a period of zero growth in the quarter before that (Q1 2024).

Comparing to the pre-Covid years

Looking back a little further to pre-Covid times, public service productivity in Q2 is estimated to be an astonishing 8.5% below its number in Q4 (Oct to Dec) 2019. This contrasts with the overall figure for the UK, which includes the public services, of a 2.8% increase.

Public services productivity from 2019 (pre-Covid) to Jun 2024



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[Sources: ONS | HoCL.]

Without the profoundly negative effect of the public sector, the UK overall would have looked more positive.

The problem in public services is not lack of investment – far from it

Delving down into the components of productivity, an alarming trend can be seen. At its root, productivity is the difference between inputs and outputs. In other words, how much goes in to produce what comes out the other end.

Our analysis shows that the amounts going into public services have increased dramatically. In the last 12 months for which we have data, the quarterly amounts going into public services have increased by the following :

- Q3 2023 : 2.3%
- Q4 2023 : 5.1%
- Q1 2024 : 3.2%
- Q2 2024 : 5.2%

Despite this, productivity has decreased significantly. And this is long after the government's Covid measures necessitated special responses.

So what's going on in the public sector? We asked Sir John Redwood to explain

Sir John Redwood is the former MP for Wokingham, having decided not to stand in the 2024 general election. He held many roles in government, including that of Chief Policy Adviser to Margaret Thatcher. He has led industrial businesses where being more productive was crucial to selling competitively priced products to safeguard the jobs of the workforce.

He has been in the vanguard of the raising of the issue of productivity – specifically in relation to the public sector. Here is Sir John, with his exclusive explanation for Facts4EU readers of what has been going on.

The Rt Hon Sir John Redwood

"The collapse of public sector productivity has caused a large black hole in the public accounts. According to the Treasury it costs £20 bn a year more this year than in 2019 to deliver our public services, a number similar to Chancellor Rachel Reeves' alleged missing money. This figure is before taxpayers need to find much more extra cash to take care of the inflation of wages and bought-in goods. The £20 bn is the cost of all the extra staff hired to produce the same output. It is likely the Treasury estimate of £20 bn understates, as there has been a further loss of productivity since it was made."

– The Rt Hon Sir John Redwood, 08 Jan 2025, writing exclusively for Facts4EU

"The large scale recruitment of extra civil servants and public sector Administrators in recent years has also facilitated many more promotions, producing more managers relative to other staff, all on higher salaries. There has been a further expansion of regulatory activities, audit and supervision, as opposed to delivering more service. More regulation requires more compliance staff. None of this helps to increase useful output at a lower cost to taxpayers."

"How can this be tackled?"

The Coalition Government did reduce the civil service substantially up to 2016, boosting productivity a bit, only for numbers to expand by around a third since. The easiest way *to progress, without need for compulsory redundancies, is to use natural wastage. As people retire or move on, so posts should be amalgamated and good internal candidates be promoted. There can be the abolition of some public bodies and functions, and amalgamation of others.*

"Longer term productivity trends since 1997 have been poor in the public sector before the post 2019 collapse. This is surprising as there are many clerical tasks, from paying benefits to issuing licences, where computers can do – and often are doing – much more of the work, yet staff numbers remained high after the installation of big computing projects.

"There is talk of spending more on better computers and software and relying on more AI to replace people. The immediate task is to restore 2019 levels of productivity, when there was no AI. First recover the £20 bn, then consider some 'spend-to-save' ideas. It will require government to get better at investing in technology and adjusting manpower down as it comes in.

*"Doing more with the same number of people or doing the same with fewer is **essential to reduce the burden on taxpayers and to create growth and prosperity.** The public sector has let taxpayers and the economy down badly in recent years. The £20 bn black hole created by the productivity loss is unaffordable and unacceptable. It is a genuine black hole that required damaging tax rises in the latest budget."*

Part two of this report can be read in full here.

CIBUK would like to thank Brexit Facts4EU for their kind permission to republish this report.

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