

Telegraph article on managing the public sector

I reproduce below an article I wrote for the Telegraph recently:

More money for the public sector must be something for something.

If we work smarter and produce more then we can be paid more. Growing the country's income per head is central to creating the greater prosperity and the wider opportunities people expect. The covid lockdowns imposed a heavy price, destroying business and tax revenues and limiting output. They led to massive public borrowing to tide us over the difficulties. Many people and enterprises came to rely on state handouts. Output and output per head slumped.

Productivity sounds technical and tedious yet it is the key to economic and individual success. If you help produce something lots of people want you usually generate more revenue, allowing your employer or your business to pay you more. If you make something unique like a best selling book or movie, or a new app which is a must have, you can be extremely well rewarded. If you help a company produce oil or pharmaceuticals or some other very investment intensive activity with few people in relation to valuable output you can benefit from the high pay the activity will allow. Markets determine the value of people's output and so influence their pay.

The public sector tends to assess the pay of its staff by reference to market based private sector comparisons. In the 22 years from 1997 to 2019 public sector productivity rose by just 3.7% over the whole time period though public sector staff got pay awards based on comparisons with a private sector that was doing a lot better at raising output per person.

Real state output soared under Labour from 1997 to 2009 by a massive 50% , but productivity fell 2% over the 12 years. Under the Conservatives pre covid by 2019 output was up again by a more restrained 8%, with productivity edging ahead to show a 3.7% gain for the entire 22 year period. By end 2021 output was up again by almost a tenth but productivity was down on 1997 levels by 3.7%.. So over nearly a quarter of a century of fast automation and technical advance in the wider economy the UK public sector saw a fall in productivity.

Now the state is much deeper in debt to pay for that huge expansion of public sector activity over the last quarter of a century as a result. We did not see savings for all the investment in computers, on line services, new trains and the rest. We cannot go on like this. It is bizarre that productivity has fallen a lot in an area like benefit processing, given the big investment in electronic systems to speed the efficiency of the process. Having an ever more complex tax system raises the costs of collection. The collapse of commuter five day a week travel on the railways has gravely damaged fare revenues leading to a surge in state subsidy to support a far less productive

railway. Subsidising too many near empty trains makes little sense financially or environmentally.

The government needs to go through the reasons for failing productivity department by department, function by function. It needs a series of something for something pay deals, that recognise people's wishes for pay that keeps up or beats prices. It needs to meet aspirations where it can afford them through promotions, increments, adjustments to pay scales that are based on more output through smarter working.

The railway is a good place to start. The government should not be offering more subsidy which is now more than double the fare revenues. It should be seeking ways to cut the cost to taxpayers, expecting from management and unions together a new approach to identifying how to use the railway to better effect to collect more fares and incur less cost. There is no need to have compulsory redundancies but there is every need to reduce manning levels where technology can do the job, to use new methods for track inspections, to amalgamate guard and driver tasks and a range of other measures which can help. Above all they need a more imaginative timetable that fits modern travel needs. They should have ticket pricing that offers larger discounts the more often you travel a route to try to get more people back commuting more regularly.

In the NHS Ministers should expect more achievement and more transparency from their many higher paid managers in the quangos and Trusts that employ the staff and spend the money. The NHS clearly needs more capacity. Management passion to reduce or limit bed numbers over the years has left it short of physical capacity for an expanding population. It needs an effective workforce plan, as it has many vacancies that need filling and many Agency staff who should be recruited into permanent roles to save the Agency fees and the frictional costs short term employment generates. Quality and output are normally enhanced by allowing people to specialise in areas that they then become good at handling. The NHS under Labour developed more ways to buy in activity and skill from the private sector, whilst preserving the all important free at the point of delivery for the patient. More use can be made of this to encourage centres of excellence and special treatment centres by type of procedure and illness.

Taxpayers are paying large sums to retain 33,000 NHS managers. They expect to see better results from all that planning, hiring and memo writing. Higher output and quality can go together, and depend on a well motivated, respected and professional workforce. As we watch the strikes and delayed access on the news broadcasts we need to ask how they can do things better. We need a public sector productivity revolution, which requires inspirational managers and positive workforces to get together for the sake of better services and higher pay. The two go together. Taxpayers are happy to pay for a good service through their taxes, but resent tipping more money into services where productivity is falling and where services do not meet the public's needs.