

A PRODUCTIVITY TOOLKIT FOR BRITAIN

BY JOHN REDWOOD



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The Centre for Policy Studies is one of the oldest and most influential think tanks in Westminster. With a focus on taxation, business, and economic growth, as well as housing, education and the environment, its mission is to develop policies that widen enterprise, ownership and opportunity. Founded in 1974 by Sir Keith Joseph and Margaret Thatcher, the CPS has a proud record of turning ideas into practical policy. As well as developing much of the Thatcher reform agenda, its research has inspired many more recent policy innovations, such as raising the personal allowance and National Insurance threshold, reintroducing free ports and adopting 'full expensing' for capital investment.

About the Author

John Redwood has wide-ranging experience running businesses and parts of the public sector as an Executive Councillor and Minister.

Introduction

Why is the British economy struggling? It has been held back by poor productivity growth in the private sector and a collapse of productivity in the public sector. Since the financial crisis, Britain's productivity performance has been weak – resulting in low growth, depressed living standards and a country that is much poorer than it should be.

Part of the explanation for this problem lies in the private sector – in particular, our determination to close down, or drive out of business, the most productive parts of our economy. The extraction of oil and gas and energy-intensive businesses that rely on those inputs are highly productive, as are high-energy-consuming manufacturing activities.

‘If NHS productivity has not improved from current levels by 2028/29, the Chancellor will need to find another £20 billion for the NHS to achieve currently anticipated health outcomes’

The situation is far worse in the public sector, where productivity is barely any higher than it was in 1997. This is extraordinary. A quarter-century of new technologies, expensive computerisation, management innovations and efficiency drives have seemingly left the British state completely behind.

To grasp the scale of the problem, consider that healthcare spending plans for 2028/29 (£236 billion) are predicated on NHS productivity returning to levels last seen in 2019, before the pandemic. If NHS productivity has not improved from current levels by 2028/29, the Chancellor will need to find another £20 billion for the NHS to achieve currently anticipated health outcomes. According to HMRC calculations, £20 billion is roughly equivalent to a 5p increase in corporation tax, or a 2p increase to each of the basic and higher rates of income tax.

Conversely, if public sector productivity were to be made to look more like the private sector, substantial savings could be made on current spending plans.

This briefing note will set out the scale of Britain's productivity problems, before proposing a toolkit – focused on the public sector, where performance is at its worst – to help address the problem.

The productivity problem

Prior to the Great Recession of 2008-09, economy-wide productivity growth averaged 2.1% a year. Since then it has been well down, averaging just 0.4% per annum. The whole period 1997 to 2024 saw annual productivity growth of just 1.1%, with two large declines around the banking crash and the Covid lockdowns.¹

Until recently, the Office for Budget Responsibility had maintained the position that this would be a temporary phenomenon. Indeed, back in October 2021, the Centre for Policy Studies warned that the outlook for the public finances rested on some truly heroic assumptions about productivity growth across the whole economy.²

‘Before 2008, productivity growth averaged 2.1%. Since then it has averaged just 0.4%’

In March 2025, the OBR revised its recent estimates and forecast productivity growth for the economy as a whole. Taking 2019 as 100, they forecast productivity to reach 106 by 2029 (instead of 107 in the October 2024 estimate). They recalculated productivity for 2023 and 2024, on discovering a larger increase in the population and workforce than they had thought. As a result, productivity fell.

At the time, the OBR again expected productivity to pick up a bit, reaching an annual increase of 1.25% by 2029. As widely publicised in the run-up to the November 2025 Budget, it has now downgraded its long-term productivity assumptions further.

The OBR now projects productivity to average just 0.9% per annum over the next few years, only recovering to 1.0% by 2030. Even this, however, might

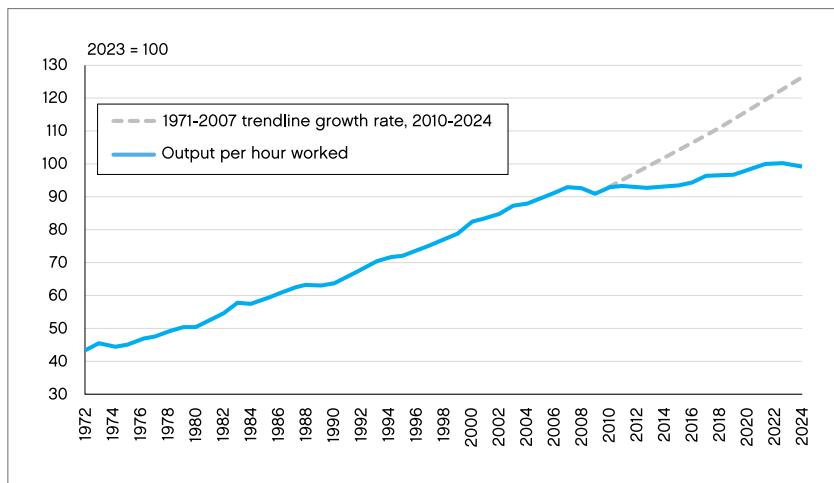
1 ONS, ‘UK Whole Economy: Output per hour worked SA: Index 2023 = 100’ (13 November 2025). [Link](#)

2 CPS, ‘Budget Briefing: The Age of the Trillion-Pound State’ (28 October 2021). [Link](#)

prove to be optimistic – as the OBR acknowledges.³ A long-term rate of 1.0% is still two-and-a-half times the post-2008 average, and productivity growth over the last three years has actually been mildly negative, averaging -0.1%, so that in Q2 2025, productivity was only 1.5% higher than it had been at the end of 2019.

This is bad news for the public finances, and for the country. Although as it transpires the tax rises in the Budget were less about plugging a fiscal black hole and more about boosting welfare spending, the underlying picture is grim: a larger deficit, as lower productivity growth means less output at higher cost, leaving a bigger gap between public spending and tax revenues. If the public sector is going to cost more for its output, and the private sector generates less tax revenue from less growth, that gap is bound to widen.

UK productivity measured by output per hour worked



Source: ONS

3 OBR, 'Economic and fiscal outlook – November 2025' (26 November 2025), esp. pp.6, 25-31. [Link](#).

The figures for the public sector from the ONS are deeply imperfect. They exclude huge chunks of public sector activity, or rather assume that productivity in those areas, which cover 40% of the UK state (including police, defence and the benefits system), can neither increase nor decline, under what is known as the ‘output-equals-inputs’ convention.⁴ (The ONS aims to incorporate the administration of benefits into its productivity calculations, moving away from the output-equals-inputs approach in due course.)

But still: in the NHS, in education and other measured areas, public sector productivity is still 5.7% below 2019 levels. As public sector services are more than a fifth of the total economy, having such a large loss of productivity in that sector results in poor overall performance, dragging down the overall total.

‘In the NHS, in education and other measured areas, public sector productivity is still 5.7% below 2019 levels’

And as if this weren’t bad enough, the Institute for Fiscal Studies noted before the Budget that current spending plans already relied on public sector productivity increasing at more than four times its recent historical average.⁵

Meanwhile the performance of the private sector has been disappointing. This should not come as a surprise. In my view, it does not – as many say – pose a ‘productivity puzzle’.⁶

The UK is busily shutting down its most productive sectors, which are by definition the capital-intensive areas of industry, energy and mining. Government policy is to accelerate closure of the North Sea oil and gas industry – one of the most productive sectors, with relatively few, well-paid workers producing a big stream of revenue. The downstream petrochemicals industry, which is in a similar position, is following suit.

4 ONS, ‘Public service productivity estimates: sources and methods’ (updated 22 April 2025). [Link](#)

5 O. Harvey-Rich & M. Warner, ‘The outlook for public sector productivity’, IFS (19 September 2025). [Link](#)

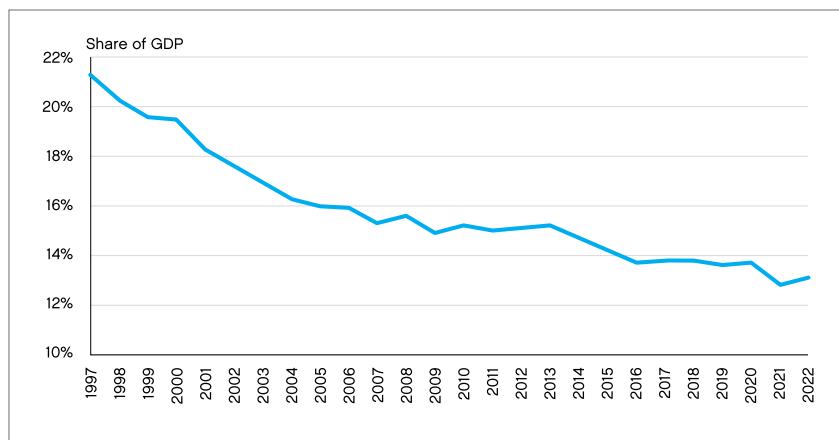
6 ONS, ‘What is the productivity puzzle?’ (7 July 2015). [Link](#)

The manufacture of petrol and diesel cars has to cease by 2030, and of hybrid cars by 2035 – so another highly productive set of factories will close.

A range of energy-intensive industries including ceramics, cement, glass, paper, steel, aluminium and other materials are also shrinking, as businesses switch to importing due to high costs. The move to being an electricity importer also reduces the importance of high-productivity energy in the calculations.

The graph below shows that 'production' – mining and quarrying, manufacturing, energy and water utilities – as a share of the UK economy had fallen to just 13.1% of GDP in 2022.⁷ All indicators suggest it has shrunk further since.

Production as a share of the UK economy



Source: ONS

⁷ ONS, 'The industrial analyses, UK National Accounts, The Blue Book: 2025' (31 October 2025). [Link](#)

The ongoing closure of highly productive industries also means the share of GDP accounted for by services is increasing. Productivity growth tends to be harder to achieve in labour-intensive service sectors – hence Baumol's cost disease, which sees wages in such sectors rise despite a lack of productivity gains. AI might yet change this, but diffusion and uptake of the technology is still limited. So for the time being, the UK economy looks likely to settle into a lower-productivity model of economic growth.

Of course, this is compounded by all the other drags on productivity growth covered by CPS research at length – over-regulation of businesses, an inability to build anywhere close to enough housing or infrastructure, behaviour-distorting tax and welfare systems, large-scale low-skilled migration and so on. But our worst productivity performance – and the greatest scope for improvement – is undoubtedly within the public sector.

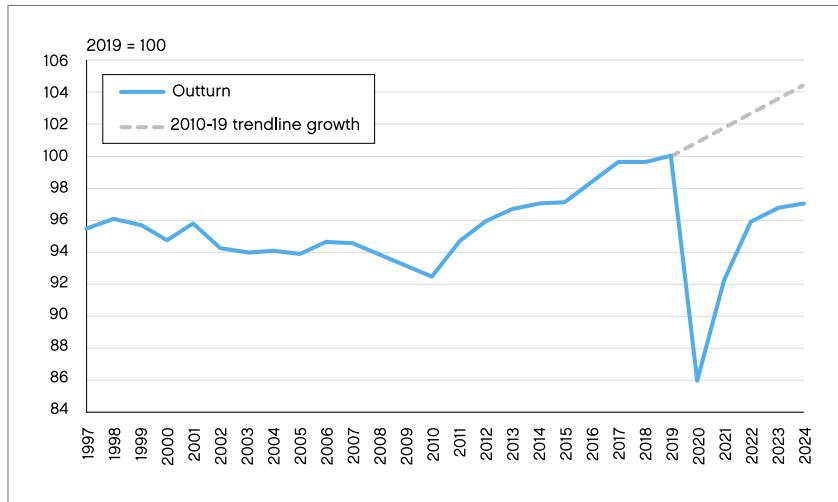
‘Our worst productivity performance is undoubtedly within the public sector’

The public sector productivity disaster

The ONS figures for public sector productivity commence in 1997, when the New Labour government came to power, and extend through the Coalition and Conservative years to 2024. They reveal that the current level of productivity – or at least the 60% of it whose productivity we actually measure – is barely higher than in 1997. That amounts to more than a quarter of a century of almost no growth in productivity whatsoever.

You would have thought there should be substantial gains over that time period. Much of government, in particular areas like tax collection and licence issuing, was ideal for introducing computing power to do much of the work. Indeed, large sums were spent on computer systems – but they did not overall yield the savings expected.

Public sector productivity, 1997-2024



Source: ONS

Instead, a productivity decline in the 2000s was followed by modest improvements in the 2010s, reaching 4.7% up on 1997 by 2019. This modest progress was torpedoed by Covid and its aftermath, when large-scale recruiting into the NHS and the Civil Service removed the small gains. As the graph above shows, public sector productivity was still 3% lower in 2024 than it had been in 2019, whereas had 2010-19 trendline growth been sustained, it would have been 4.5% higher.⁸

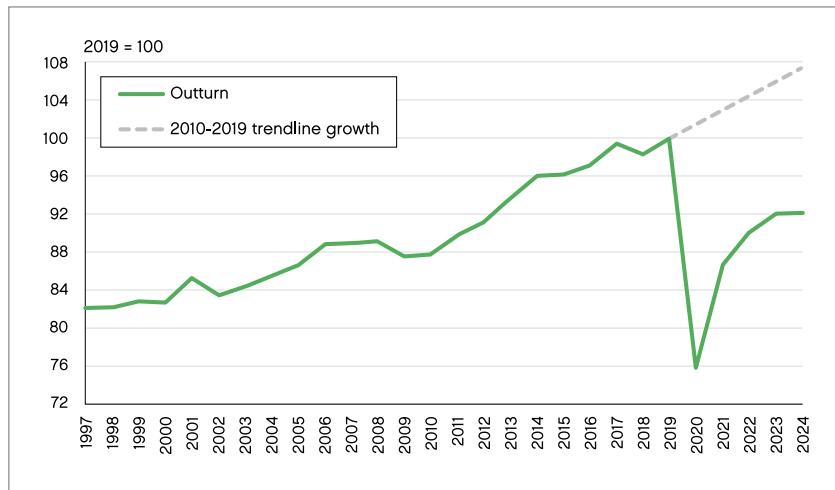
Worryingly, the post-pandemic recovery in productivity seems to have tapered off. The latest, albeit provisional figures even suggest that productivity is declining across the public sector again. In Q2 2025, public sector productivity was down 0.7% on Q2 2024. Substantial injections of cash by Labour – including generous public sector pay rises without any requirement to improve working practices – have increased inputs into the public services, but without a commensurate improvement in outputs.

8 ONS, 'Public service productivity, quarterly, UK: April to June 2025' (3 November 2025). [Link](#)

The situation is particularly concerning in healthcare. The NHS has greatly expanded over the last 27 years, with big increases in staff, budgets and workload. Again, the arrival of computers to help with records, appointments, staff management and the rest has not led to savings in overheads relative to workload. Instead, the NHS has seen some of the biggest falls in productivity over this time period of any public service.

The NHS obviously faces the headwinds of an ageing population, but this cannot account for the collapse in productivity in 2020/21, and its failure to recover. As the graph below shows, in 2024 NHS productivity was still 8% below 2019 levels, whereas even on the gradual 2010-19 trendline, it should have been 8% above.

Public sector healthcare productivity, 1997-2024



Source: ONS

As with public sector productivity as a whole, recent ONS data indicates that NHS productivity is going into reverse once again, with seasonally adjusted productivity 1.5% lower in Q2 2025 than Q2 2024, at just 87.2% of 2019 levels. This ONS data contradicts the statistics from NHS England, which show productivity rising by 2.7% in the 2024/25 fiscal year.⁹ But as the ONS notes, this is because the ONS ‘include spending from Integrated Care Boards (ICBs) to remain consistent with coverage across the national accounts’, whereas NHS England conveniently excludes this particularly bureaucratic part of the healthcare system from its calculations.¹⁰

‘Virtually all of the Chancellor’s borrowing overrun can be laid at the door of the fall in productivity’

Virtually all of the Chancellor’s borrowing overrun can be laid at the door of the fall in productivity. The Civil Service has expanded from a low of 384,000 in June 2016 to 516,000 in June 2025, an increase of over one third. NHS staff numbers (full-time equivalents) have risen from 1 million in 2016 to 1.37 million, also more than a third. The NHS is seeing more patients and performing more treatments – but clearly all the extra people are not driving higher productivity.

What should be done about the productivity collapse?

Both Conservative and Labour ministers have recognised this problem and have asked officials to come up with some answers. The main response has been that AI could lead to substantial improvements in productivity, so the present government has accepted a spend-to-save programme of expenditure on improved computing for many activities.

9 DHSC & NHS England, ‘Press release: Patients treated more quickly as NHS productivity rises over year’ (22 September 2025). [Link](#)

10 ONS, ‘Public service productivity, quarterly, UK: April to June 2025’ (3 November 2025). [Link](#)

This results in a hockey stick graph forecasting the problem getting worse and dearer for a couple of years or so, before the Government starts to see some results from its extra spending around the time of the next election.

This is not a convincing response. Just recovering to 2019 levels of productivity would provide a large saving for taxpayers. There was no AI in 2019. Past computing programmes have often gone badly, some infamously so as at the Post Office. There are plenty of things good managers can do without reaching for the chequebook and emailing the digital giants to come to the rescue.

‘Just recovering to 2019 levels of productivity would provide a large saving for taxpayers’

The ‘productivity toolkit’ that follows is based on my experiences running large companies and Government departments in a pre-AI era. It is based on the philosophy that better management of staff, use of performance bonuses, replacing agency staff with in-house, use of flexibility over recruitment and replacement, better management of property and energy, controlling stocks and lifting quality could all make improvements. Quality and efficiency are two sides of the same coin. Quality and efficiency improve where top management both requires them and practises them themselves.

This toolkit is politically neutral and does not aim to identify areas of government and regulation that could be removed or repealed. There could of course be savings by government doing less, but that is for another piece of research. This guide instead concentrates on how to get the most out of each pound spent whatever the purpose, and offers solutions to managers in the NHS, the Civil Service and other core parts of the public sector who find their budgets stretched and those they serve unhappy about the timeliness and quality of the service.

It is split into three sections: staff, estate and supplies.

The Public Sector Productivity Toolkit

1. Staff

Recruitment freezes

This is the simplest way of getting substantial savings on employee numbers and costs with least staff resistance. There should be savings of around 7-8% a year from natural wastage. It does require skill in amalgamating and removing posts as people leave. You need to keep the posts that matter and offer transfers/promotions to existing staff to fill the vacancies that need filling. The risk to be managed is that you end up losing the good people you don't want to and keeping those who can't flourish elsewhere. There also needs to be tight control over taking on staff indirectly by offering contracts to outside businesses to replace lost internal staff.

‘There should be savings of around 7-8% a year from natural wastage’

Voluntary redundancy schemes

Where it has been decided to remove a function or separate organisation within the government (or a local council, or regulator), there may need to be voluntary redundancy schemes to speed the process of slimming in the targeted area. This will come with first-year redundancy costs. It is still best to try to find alternative openings within the wider organisation.

There should be a ban on rehiring or a requirement to repay some of the redundancy payments if rehired, as the public sector is good at rehiring people who have benefited from redundancy payments within a few months of their departure.

Redeployment

This is the key to getting a more productive organisation focused on the strategic aims as laid down by ministers or the ruling group on a council. It of course requires clarity from the elected officials about what they are trying to do and what the public wants.

If the organisation has weak ministers or a weak ruling group then the officials need to define the aims and set the targets to bring about an improvement in efficiency and value for money which the elected officials can approve or amend. Redeployment may require more training.

‘ How did CEOs of the Post Office qualify for bonuses whilst recording large losses and badly bungling their computerisation programme? ’

The role of training

Good training works for the employee and the employer. Training may be targeted on equipping capable and qualified people to do the particular job required. It may be needed to explain the aims, standards and ethos of the organisation to all staff. It may be tailored to an individual who wishes to become more skilled and may gain external qualifications of use to themselves and the employer.

Where an employer is undertaking expensive training to upgrade someone's general skills, there can be a clause which says they should work for the employer on qualifying for a minimum time, or refund some of the cost if they leave early.

Better bonus schemes

Too many public sector bonus schemes have undemanding targets and pay out too often based on a general judgment. How did CEOs of the Post Office qualify for bonuses whilst recording large losses for taxpayers and badly bungling their computerisation programme? The bonus schemes should be based around raising productivity and service quality using hard numbers. It should be more difficult to qualify, but the payouts for success should be greater to provide a better incentive. It is notable that within

the NHS, for example, there is almost no element of performance-related pay, save for some limited bonuses paid to doctors on the say-so of other doctors, rather than for achieving specific objectives.¹¹

Absenteeism and sickness

Rates of absence and sickness are often higher in the public sector than in the private. This may reflect low morale and poor management, as there is no reason to expect higher sickness if working for the state. This should be monitored and managed, as extra absence means the need to employ more people to cover. Asking managers to take an interest in the health of their employees, and to talk to them about why they need to be absent, usually results in a reduction in absence when people are not ill.

The public sector experiences an average of more than 8 days a year sickness absence compared to around 5 for the private sector. If the public sector aligned with the private it would save at least 1% of the staff numbers.

‘If the public sector aligned with the private on sick leave it would save at least 1% of the staff numbers’

Buying in contract labour and contracting out functions

Sometimes it makes sense to buy in work from an external contractor. The public sector needs to do this for the use of skills that it does not need all the time. Legal advice on a difficult topic may require counsel’s opinion. Building work requires skilled building trades to undertake specific new build projects.

There have been periods when some councils have put out services to tender to see if the private sector can do them more cheaply. Refuse collection, for example, or catering in public sector facilities are often contracted out. The state has found competing private businesses specialising in these areas can do it more cheaply. There may be a case to see if a service could be delivered better by contracting out. The in-house staff will be covered by the TUPE regulations to transfer to a new employer if the external bid is successful.

11 P. Goldsmith, ‘An NHS Bonus’, Centre for Policy Studies (2 July 2018). [Link](#)

If contracting out a service is cheaper, it reveals the productivity gap, as it is cheaper despite the private provider needing to make a profit on top of the cost base.

Home working

Home working is preferred by many people at least part of the time. It brings the advantages of saving money on travel, avoiding the waste of travel time and the ever present risk of delays. It allows someone to concentrate on the job in hand without colleague distractions.

But it also has a number of drawbacks for employers and employees. It impedes team working, it loses those daily informal exchanges that may help things along or generate ideas, and it makes regular mentoring of staff more difficult. Hybrid meetings can also put remote working staff at a disadvantage in a meeting or allow them to coast while people in the room do the work.

**‘If contracting out a service
is cheaper, it shows there
is a productivity gap’**

There is no universal answer to the question of whether home working reduces or raises productivity. It is likely that with motivated and good staff it raises their productivity, because they will judge when being at home lets them get on with a solitary task and when they need to be with colleagues. It probably lowers the productivity of weaker staff members who may use it to short-change on hours or effort when at home. It is true such staff can waste time and do other things in the office as well, but there is more of a constraint on how much as other staff members can see what they are doing.

To get the best out of home working, an employer needs to agree with staff reasonable monitoring of home work, the equivalent of the monitoring that occurs in an office or factory environment. To get the best out of staff the simplest approach is to agree a quantity of work that needs to be achieved without going into whether they choose to do this at home or in the office. Otherwise the employer needs to monitor use of the remote equipment and tell an employee what is expected in terms of computer hours to do the job.

Frequency of promotions and job changes

The public sector, particularly the Civil Service, goes in for short periods in any given role, moving people sideways or upwards from job to job. This undermines productivity. If someone has a two- or three-year assignment they may well take six months to get up to speed on how best to do the job and to build up their contacts amongst users, suppliers and colleagues. They may also be demob happy from the job in the closing months, limiting the time when the state gets peak performance out of them.

Where you are seeking continuous improvements, leaving people in post for longer is the obvious way to get that. With experience should come understanding and a willingness to achieve improvements. Recruiting and retaining specialists for given areas of work can result in better results.

To retain people in roles they are good at requires good bonus systems and a willingness to move people up pay scales as they perform well. There can also be promotions in post to pay more where the performance and expertise warrants it.

‘The public sector, particularly the Civil Service, keeps moving people sideways or upwards from job to job’

2. Estate

Core estates and rented offices

The public sector has been wanton with property costs, choosing to have a large office estate in the very expensive centre of London and key properties in the centre of other large cities. These properties sit on valuable land, and are difficult to access for staff who cannot afford to live nearby.

Of course the state and local councils should keep, adapt and use key heritage buildings. The Treasury, Foreign Office, Downing Street and similar, and the great town halls, should be retained and used. The freeholds should not be sold to lease back. But the office estate spills over into many other properties including many leaseholds. These can be reviewed again and alternatives found with more modern space in cheaper locations.

Balance between home working and office

The decision of many civil servants and council officers to mainly work from home provides an opportunity to reduce office space if this pattern of work continues. If someone only comes into an office once or twice a week, it is an expensive indulgence to provide a permanent work space that is idle five to six days a week. There needs to be plans to rely more on hot desking.

Most companies offering home working for part of the week have adopted more hot-desks, where a person arrives and links their laptop or mobile into an established office desk system for the day. The biggest disadvantage this brings is that the employer does not then want all staff to turn up on the same day as there will not be desks for them. As there are times when a department or function would benefit from all the team being present, it will be necessary to ensure teams or functional areas chose different days for all staff to be present.

‘The decision of many civil servants to mainly work from home provides an opportunity to reduce office space’

Site management

Older buildings can pose issues with energy costs. Spending on insulation, heating timings and standards, solar panels, lighting systems and controls can deliver savings. When moving from older, larger rented offices to new leases, energy and maintenance costs are an important consideration.

Office systems need to be robust and simple to use to cope with the varied pattern of staff use. A good maintenance team can save a lot of money by vigilance, dealing with problems as soon as they develop, and providing advice on replacements that are less demanding and costly.

Staffing levels for security and servicing

In large public sector buildings, having flexible and well-motivated front of house reception staff can make a difference. They can provide friendly security screening. They can ensure the reception area, which gives a first impression of the organisation, is kept clean and tidy.

Use of facilities at weekends and in evenings

Many public facilities can be used more, without disrupting cleaning and maintenance time. Where evening meetings, away day events and weekend interactions with the public are needed it should usually be possible to use the public estate rather than hiring private facilities.

Furthermore, where a school is building a swimming pool or specialist games facilities, thought should be given to wider public use in the evening and in the school holidays.

‘Many public facilities can be used more, without disrupting cleaning and maintenance time’

3. Supplies

Buying better

The public sector often over-orders, writes off stocks, and experiences theft and wastage. This was especially obvious during the Covid pandemic due to the scale of the mismanagement in the public sector, but almost certainly remains a problem today in Whitehall and public services. Proportionate and transparent procurement could deliver savings across the board.

Balance between central contracts and local decisions

The public sector often seeks economies of scale, seeking lower tariffs for bulk ordering. This can make sense, but it can also lead to misguided orders and poor usage patterns with too little local decision-making about what they need. Central buying should result in lower prices, but it will also result in more expense in terms of personnel, time setting up the competition, and the contract for the items concerned.

Stock levels

There can be too much stock, held in too many places. When I was responsible for the Welsh NHS, there were drug stocks held centrally, drugs held by each hospital and smaller stocks on each ward. Many of the drugs needed refrigeration and had limited shelf lives, leading to the risk of more waste. Eliminating the central stock and going over to just-in-time delivery by the pharma companies to the hospitals eliminated a lot of cost and waste.

Similarly, there needs to be a general review of write-off size and the age of stock across the public sector. Stock needs to be drawn down in date order to avoid pockets that will need write off. PPE stocks turned out to be too old when the pandemic struck, and the pandemic showed you could not possibly keep a sufficient stock for such a large event. Supply ultimately depends on good and flexible suppliers who can scale up output quickly.

Managing suppliers

There is no substitute for having a good range of trusted suppliers and working with them. They need to be allowed to make decent margins, as they need profit to invest in R&D and new machinery. The more you can share your needs and problems with them, the more likely they can produce supplies that help you in your tasks. You need their ability to flex volumes as demand changes and to innovate. They need the client to pay promptly and to agree a fair analysis of performance.

‘There is no substitute for having a good range of trusted suppliers and working with them’

Uniform management

The large users of uniforms in the defence forces, the NHS, fire and police services pose problems and provide opportunities. It is the kind of activity that can benefit from review to see if there are better ways of handling the provision, supply, cleaning and repair of uniforms. The NHS does usually offer cleaning services to staff with hospital laundries.

Logos and identifiers

Senior personnel should resist the temptation to change logos, letterheads and brand identities for different parts of the public sector. These are done too frequently and can prove expensive to introduce. Where a brand change is needed, it should be phased in using up all the older branded materials first.

Theft and fraud

A lot of taxpayer money walks out of the door as petty theft. Benefit fraud sometimes takes place on an industrial scale, as well as individuals making false claims. The NHS loses sheets, towels and other supplies.

The public sector can learn more from hotels who combat some of these issues. The benefit system needs to review NI numbers to get to the proper position where each person just has the one NI number used to help control their tax and benefit arrangements and acting as a unique ID.

‘Benefit fraud sometimes takes place on an industrial scale, as well as individuals making false claims’

Return of public sector items

Everything from library loans to walking aids provided temporarily by the public sector should be returned and reused. The NHS is bad about requiring or even accepting the return of crutches, walking frames, wheelchairs and other aids which could be cleaned and reused.

Appropriate use

There can be issues about using expensive items for purposes they were not designed to do. For example, in some health settings expensive and thin surgical gloves are used to clean when normal rubber gloves should be selected at a lower cost.

Ownership versus leasing and renting

With a cheaper cost of capital compared to the private sector, the state can make good choices between owning and renting. It should normally be cheaper for the state to own constantly used equipment and buildings than to lease or rent.

If the advantage of the private leased item stems from better management of the equipment by the private sector, then the state can still own the equipment and just pay for the superior staff team running it.

Office equipment and software

Public bodies spend large sums on computing and communications services. There have been spectacular failures or cost overruns, as with the Post Office Horizon project and with various attempts to standardise NHS computer systems.

‘Public bodies spend large sums on computing and communications services’

As with general supply it poses the centre/operating unit dilemma. The centralised system should be cheaper and better. But lack of buy-in by the operating units, the need to bolt it on to existing systems, and the lack of local flexibility in systems, can conspire to make it dearer and less satisfactory. There is a tendency to want something bespoke when many of the issues to be resolved are issues that large private sector concerns have already solved.

Conclusion

In the longer term, public sector productivity growth could be reinvigorated by new technologies like AI, and systemic reform of damaging legislation such as the Social Value Act 2012 and the Public Sector Equality Duty (PSED). These two pieces of legislation need simplifying to keep the need to treat people well, but not to burden and distort procurement.

But even just returning to 2019 levels of productivity – when such legislation was in effect, and before the advent of AI – would leave the public sector as a whole 5.7% more productive than it is now, and the NHS in particular 12.8% more productive.

**‘These ideas are not rocket science.
They are the simple basics of performance
management and value for money’**

DHSC spending is on track to reach around £236 billion in 2028/29 – but as the IFS has pointed out, this assumes that NHS productivity returns to around 2019 levels by 2028/29. If these productivity gains fail to materialise, then to get the same outcomes, spending would have to be roughly £20 billion higher than currently anticipated. According to HMRC ‘ready reckoners’, raising that additional money through taxes would be roughly equivalent to adding 5p to the rate of corporation tax, or 2p to each of the basic rate and the higher rate of income tax.¹² So unless NHS productivity can return to at least 2019 levels, the Chancellor faces the prospect of a new fiscal black hole opening up in official forecasts.

Most of the ideas above are not rocket science. They are the simple basics of performance management, and value for money. Yet the scale of the public sector productivity shortfall is such that even very basic changes could save the taxpayer a quite extraordinary amount.

12 HMRC, ‘Direct effects of illustrative tax changes’ (24 June 2025). [Link](#)



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