Productivity in the public sector

What makes a good job?
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Introduction

Productivity, and its improvement, is both a political imperative and a business necessity. It is the point where the debates on growth, living standards and deficit reduction converge. In the long run, living standards and productivity are closely linked. Higher wages must come from creating greater value for which employers will pay, whether this is in the public, private or third sectors. So what can be done to lift productivity and how can the public sector play its part?

Central to this debate is a need to understand the drivers of employee performance, recognising that other factors like investment, infrastructure and advances in technology (especially digitalisation) also impact on productivity. Clearly this is an economy-wide issue. But the public sector itself is a huge employer and has a unique impact on this debate.

This Talking Points publication therefore explores how the public sector can create ‘good jobs’ which are more productive and rewarding in all senses: ones that give satisfaction, pride in doing good work, an opportunity for career progression, flexibility and income sufficient to live on, ideally with a little left over¹. It begins by examining the context of low productivity and the challenges ahead for the public sector. Then it considers the role of the workforce as a partner in meeting these challenges. Finally, it concludes with some potential responses, including:

- **Job design** for high productivity working.
- **Learning and development** for an adaptable public sector workforce.
- **Pay and rewards** and their links to productivity.

The publication draws together discussions covering these areas over a series of three roundtables co-hosted between Demos and PwC on ‘good jobs’².

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¹ [www.pwc.co.uk/government-public-sector/good-growth/index.jhtml](http://www.pwc.co.uk/government-public-sector/good-growth/index.jhtml)

² Demos and PwC co-hosted a series of three roundtable events bringing together employers, professional bodies, think tanks, social enterprise organisations and academics between November 2013 and April 2014.
The productivity challenge

The UK as a whole has a productivity problem. UK workers produce less per hour than their counterparts in France, Germany and the US, with the gap widening since the financial crisis. And catching up matters: a 10% boost in hourly productivity would be the equivalent of an extra £140 billion GDP every year.3

Britain has avoided the levels of unemployment seen in past recessions, which is welcome, but as a nation we now work less productively than we did in 2007. Figure 1 illustrates the UK’s recent ‘jobs rich, productivity poor’ recovery.4

In meeting this productivity challenge, both national and local government also have important roles to play.

On the one hand, by creating the right environment for business through their policies, government at all levels can help places to build on their strengths and attract the talent and investment that companies need to succeed.

However, the public sector has another role to play if Britain is to rise to the productivity challenge – as an employer in its own right. The public sector employs 5.4 million people across the UK – roughly one in six of the workforce (see Box). And the fastest growing part of the workforce as a whole is human health and social work5 – a traditionally low pay, low productivity sector funded primarily by the taxpayer.

3 www.pwc.co.uk/government-public-sector/stepping-stones/index.jhtml
4 www.pwc.co.uk/the-economy/publications/uk-economic-outlook/ukeo-summary-march-14.jhtml
5 See Duncan Weldon for a longer discussion on this: touchstoneblog.org.uk/2014/01/the-changing-shape-of-the-british-economy-in-recession-recovery
Public sector employment

In the first quarter of 2014, UK public sector employment of 5.4 million had reached its lowest level, on a headcount basis, since the start of the ONS compilation of the series in 1999. Of this total, employment in UK local government stands at 2.4 million, UK central government at 2.8 million and UK public corporations at around 200,000.

Looking at these figures in another way, 1.6 million people were employed in the National Health Service, 1.1 million in public administration, 1.5 million people in education and just over 400,000 people in the armed forces and police, with just over 800,000 people working in other parts of the public sector.

Figure 1: Employment is rising strongly but productivity is not following

Source: ONS
Note: *Estimate for 2014 Q1

The problem: challenges ahead for the public sector

Improving Britain's economic performance depends therefore in part on creating a more highly productive and efficient public sector. In the face of recurrent budget cuts to bring down the deficit, affordable government has become the watchword, not only for this government, but the next one as well.

But with so much talk of austerity, there is also a need for a compelling vision of the future which shifts focus to a post-austerity view of government and engages, as much as challenges, the public sector workforce to do better with less.

This future will be one where the public sector needs to meet rising citizen expectations and deliver outcomes by doing things differently. Users of public services expect personalisation, customer service and a willingness to go the extra mile – but this must be achieved in public bodies with less funding, not more.

Figure 2: Total Public Services Output, Inputs and Productivity Estimates 1997-2010

Source: ONS: www.ons.gov.uk/ons/dcp171766_354443.pdf
Indeed, it will often involve prioritising the public services that really matter to citizens, doing different things, and stopping some activities altogether. Smaller, more networked public bodies will be the norm needing, in turn, new skills and capabilities to venture and collaborate with others if they are to deliver their purpose and outcomes for the public. This means questioning more fundamentally the purpose and core activities of organisations and taking a more strategic view of human resources as well (see Box).

It also means squaring this particular circle – of reduced funding yet increasing demands – through a transformation in public sector productivity. This is no mean feat as the public sector has a long standing productivity problem (see Figure 2). Despite record rises in spending on public services prior to the global financial crisis, and recognising that the analysis does not capture the impact of the cuts since 2010, there was no growth in productivity over the period 1997 to 2010. Indeed total public service productivity index in 2010 returned to the same level it was in 1997.

**People count: reshaping the public sector workforce**

The challenges facing the Ministry of Defence (MOD) underline that Whitehall, and the wider public sector, is thinking very differently about the delivery of services. What should the Department deliver and how can it configure itself in response to a tough fiscal environment and changing workforce aspirations? And what kind of innovative employment model can deliver this transformation? Every Whitehall department should ask itself these questions.

The first step towards an answer is considering what Whitehall departments need to ‘own’ and deliver themselves, what they can ‘share’ across services and organisations and what they can ‘buy’ from others. All of these options have significant workforce implications. For example, how do you motivate and engage a workforce that may be employed across a range of entities? Human Resource (HR) practitioners will need to become more strategic ‘resource brokers’, predicting, smoothing and managing peaks and troughs in workforce supply and demand across many employing organisations.

Unlike the private sector, where a significant number of organisations have a HR presence at the top table, in the public sector HR does not enjoy the same profile uniformly. Perceptions of the function are, at worst, a gatekeeper, slowing organisational change or with cumbersome polices, and, at best, a transaction specialist, supporting workforce change that is ‘designed’ by senior officers.

HR needs to develop the capacity and capability to be at the forefront of service redesign, becoming ‘workforce architects’ through providing evidence based, innovative thinking about the construct of service and the deployment options across the front, middle and back office. This includes encouraging and facilitating collaboration and co-design across public services, and creating enabling frameworks that effectively plan, attract, retain and motivate the workforce.

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7 www.pwc.com/gx/en/psrc/publications/future-of-government.jhtml
Of course, we know that measuring the productivity of services in general, but public services in particular, is notoriously difficult. However, this only adds to the need to get a better grip not only on the measures, but also the underlying drivers, if those delivering public services are going to rise to the challenge of doing better with less (see Box).

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**Getting to grips with public sector productivity**

Raising productivity is the touchstone for many politicians seeking to deliver affordable government and is expressed in terms of improving efficiency, effectiveness and outcomes. The complicating factor is that there is no commonly agreed way, within or across countries, to measure public sector productivity. Indeed, such is the extent of the problem that some see this as an argument for regarding public sector productivity as an unsolvable issue, or only relevant to public bodies with commercial attributes such as state-owned enterprises.

However, there are other ways into this critical issue for public services. Productivity in the public sector usually equates to three interrelated drivers:

- **Reduction in the cost base** – pursuit of cost reductions in response to a constrained financial environment.
- **Public sector modernisation** – attempts to reform and restructure public services.
- **Service delivery improvement** – improvement in outcomes for citizens by increasing the efficiency and effectiveness of service delivery.

Despite the challenges, it is helpful to focus the debate around three key questions:

- What is the organisational **purpose and its priorities**, and do employees own the outcomes that the public sector organisation is aiming to achieve?
- What can actually be **measured** as a means of determining productivity in the public sector, or is this an area for future research?
- How can plans and strategies to reform, and therefore improve, productivity translate into an **implementation plan** that actually delivers on **desired outcomes**?

Each of these questions provides a way into addressing public sector productivity, with a focus on identifying value-adding activities and executing plans efficiently and effectively.

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A need for adaptability

Of course, productivity improvement in the private sector is often spurred on through competitive pressure. In his speech at the Public Sector Show May 2014, Cabinet Office Minister Francis Maude re-stated the Coalition’s emergent principles for public service reform. A key element is the drive to increase productivity through opening up public services to new forms of pressure and challenge by making public service markets ‘more dynamic and competitive’.

This approach is based on the recognition that information about how to improve services is not held exclusively by a few people in Whitehall. Instead, it is distributed widely among service users, service providers and wider civil society. Moves to personalise services seek to draw on the information held by service users about their own lives and circumstances. Policies to introduce new providers beyond the public sector seek to draw in new ideas and ways of working. And a shift towards greater transparency and more open data is designed to draw upon the ‘wisdom of the crowd’ beyond strict organisational boundaries.

In these respects, public services are moving closer to the model of ‘open innovation’ adopted by many companies in the private sector. Such models of innovation importantly rely on a workforce that is motivated and capable of driving improvements. This is because employees, who engage closely with service users, often have knowledge that even their own managers will not have about what works and what does not or what might be improved – and how. Organisations that are hungry for innovation and improvement find ways to draw on this knowledge.

However, only so much can be specified through directives and exhortation. Indeed, Maude notes in his speech: ‘Public servants must be given the training, skills and confidence they need with the responsibility to do their jobs and to be accountable for what they achieve.’ True excellence requires people on the front line to be adaptable to different challenges, responsive to the needs of each individual and willing to go the extra mile (see Box).

10 C Leadbeater, Personalisation through participation, Demos
What is adaptable talent?¹¹

The capacity of a market to match supply and demand efficiently depends on the ability and willingness of employers and employees to adapt to changing circumstances and align skills with available opportunities. If this alignment is less than perfect, a mismatch occurs and optimum productivity can’t be reached.

There are two essential ingredients to adaptability. First, the ability of employers to look differently at sources of talent. This means investigating new geographies and sectors as sources of new talent, as well as investing in existing employees, equipping them with the necessary skills and motivating them to adapt to meet new challenges.

Secondly, of course, this requires willing individuals who are prepared to embrace change and apply their skills somewhere new. In order to assess adaptability in a particular market we need to look at both sides of the equation.

In this study we used LinkedIn and PwC Saratoga data to assess the primary indicators of an adaptable market, including the rate at which people switch between roles and sectors, the rate at which they’re promoted and the number of jobs left open in a market, resulting in a Talent Adaptability Score. This measures the adaptability of the 11 countries we researched side by side and shows a wide variety in adaptability across geographic markets, with the Netherlands coming out on top and China and India ranking lowest.

But this adaptability requires an organisational culture and structure which creates the scope for autonomy and for employees to have a say in how they mould and shape their jobs to the requirements of their customers. This, in turn, requires attention to be paid to skills, progression, pay and conditions as well as job design.

¹¹ ‘Adapt to survive: How better alignment between talent and opportunity can drive economic growth’, A global study by PwC, commissioned by LinkedIn
Skills and progression

The foundation for this way of working is a workforce skilled enough to adapt to different challenges and drive continuous improvement. On this score, the public sector workforce appears to stand up well (Figure 3). Overall, public sector workers have higher levels of education than their counterparts in the private sector. About 57% of workers in the public sector had some form of higher education qualification in 2012–13, compared with 36% of private sector workers.12

The public sector also scores well as an employer in this area, by comparison with the private and voluntary sectors. Surveys show employees in the public sector are more likely to believe that progression is achievable within their organisation than those in the private or voluntary sectors: 33% of public sector employees believe this, compared with 31% in the private sector and 29% in the voluntary sector.13

Our roundtables revealed aspects of good practice in this area too. For example, in some of the high profile organisations represented a high proportion of managers are promoted internally, fostering greater understanding between grades, as well as the sense that there is a clear pathway from entry level to executive positions.

Of course, there remain considerable challenges, with the overall data on skills masking differences between different parts of the public sector. For example, 96 per cent of teachers hold qualifications at degree level or higher14, while this is true of just 6.7% of those working in the social care sector.15 Similarly, while overall qualification levels in the civil service are relatively high, the National Audit Office has identified significant shortages in specific skill sets, such as project management and digital delivery.16

However, while it is true that all sectors must lift their game on training to meet the aspirations of the government to boost social mobility, the public sector as a whole has a strong story to tell.

Figure 3: Skill levels across the public/private sectors

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<thead>
<tr>
<th></th>
<th>Private sector</th>
<th>Public sector</th>
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<tbody>
<tr>
<td>Level 4</td>
<td>36</td>
<td>57</td>
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<tr>
<td>Level 3</td>
<td>26</td>
<td>18</td>
</tr>
<tr>
<td>Level 2</td>
<td>22</td>
<td>17</td>
</tr>
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<td>Other qualification</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>No qualification</td>
<td>7</td>
<td>3</td>
</tr>
</tbody>
</table>

Figures are subject to rounding so may not equal 100% in all cases

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13 www.cipd.co.uk/binaries/6582%20EmpOutlook%20Spring%202014%20%28WEB%29.pdf
15 www.nmds-sc-online.org.uk/Get.aspx?id=829408
16 www.publicsectorexecutive.com/Public-Sector-News/significant-skills-shortage-in-civil-service--nao
The picture is less optimistic when it comes to employee engagement, which can be an important ingredient when it comes to productivity growth. The evidence from the Chartered Institute of Personnel and Development’s (CIPD) employee outlook survey (Figure 4) shows that the public sector has the lowest proportion of engaged employees of any organisational type, including the full range of private sector businesses, from micro businesses to large enterprises.17

Some of this may be attributable to particularly difficult decisions in the public sector around pay, conditions and reduced headcount, as a consequence of recent fiscal retrenchment. Public sector employees are now more likely than their counterparts in the private or voluntary sectors to report that their organisation has made redundancies, frozen or cut pay, reduced pension contributions and reduced employee perks.18

Though job satisfaction does not correlate simply with pay and conditions – with, for example, florists, hairdressers and plumbers all reporting greater job satisfaction than bankers and IT professionals in the private sector19 – changes to people’s terms and conditions are likely to have had an effect.

Perhaps what is more worrying, however, is the extent to which the public sector scores badly in many of the areas where managers have much more control: over the nature of work itself and how employees are engaged and empowered, or not.

This comes back partly to clarity of organisational purpose, objectives and outcomes, which impacts directly on staff engagement and has implications for leadership. Vision and leadership connects people to the organisation’s purpose: without agreement on the point of an organisation, being productive (in the sense of getting things done) seems meaningless. Part of having a good job in the public sector is that it means something, not only to the worker, but to society more widely. Its purpose is given by being connected to the outcomes valued by the public.

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17 www.cipd.co.uk/binaries/6582%20EmpOutlook%20Spring%202014%20WEB%20%29.pdf
18 www.cipd.co.uk/binaries/6582%20EmpOutlook%20Spring%202014%20WEB%20%29.pdf
Often satisfaction with a job comes from intrinsic value – achieving outcomes and the respect of your family and friends, irrespective of the perceptions of others. Whether in the role of Permanent Secretary of a government department, a departmental manager in a council or a porter in a hospital, people need to see purpose in their work and how they add value. As Dr Steve Peters comments: ‘When we have a sense of purpose in life it brings with it a sense of meaning and this in turn leads to achievement, satisfaction and wellbeing.’

However, public sector employees appear less likely than their private or voluntary sector counterparts to agree that their line managers have communicated objectives clearly to them. Nor does the public sector as a whole score well on measures for employees trusting senior managers, feeling respected at work, or having a clear sense of where the organisation is going (Figure 5). The picture that emerges is of a public sector struggling to adapt to shrinking budgets, but also one that lacks the tools to get the best from the people working in it.

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20 ‘The Chimp Paradox’, Dr Steve Peters, 2011
The problem with this apparently widespread sense of disengagement is twofold. First, disengaged employees may well be less committed to their work and less productive as a result. For instance, in the UK the Employment Engagement Taskforce sets out the evidence for the connection between engagement and performance, quoting one study which found that business units with engagement scores in the top quartile averaged 18% higher productivity than those units in the bottom quartile.22

Harvard professor Teresa Amabile has also found that staff work better when ‘happily engaged’ than when they find themselves under pressure.23 This echoes the work of psychologist Mihály Csikszentmihályi, who argues that people’s best work is done when they are neither bored nor stressed, but rather able to apply their skills to a challenging task.24

Researchers at Warwick University have produced similar findings on the link between wellbeing and productivity. Experimental work has found happier workers to be 12 percent more productive than average, with unhappy workers 10 percent less productive.25

Second, employees who do not have clarity about organisational and personal goals, lack autonomy or do not believe that they are listened to, are less likely to become active partners in redesigning their jobs for higher productivity working. In this respect, employee engagement needs to be understood not just as a means of motivating staff, but also as a way of drawing more people into the process of innovation and continuous improvement (see Box).

Case study: redesigning jobs for high-productivity working

The social care sector faces competing pressures, as the increased demands of an ageing population and public spending constraints collide. Today, the number of adults aged 85 or over – those most likely to need care – continues to rise faster than the population as a whole. But spending on adult social care is falling in real terms – and is projected to continue to do so. The sector faces additional pressures as employment practices come under the spotlight. Pay in the sector ranks among the lowest in the UK, with as many as a quarter of care workers paid less than the minimum wage once unpaid travel time between home visits is accounted for. Meanwhile, turnover among care workers is high, at 22 per cent annually, which the National Audit Office has warned may further reduce employers’ incentive to invest in staff skills.

In the long term, the government aims to attract new sources of funding into the sector, with the post-Dilnot reforms designed to seed a new market in long term care products. However, in the short to medium term, this will entail care workers redesigning their jobs, with a focus on finding new ways to enhance people’s capacity to manage their own conditions and to intervene early, to reduce demand for care over the long term.

Despite examples of excellent practice, it is not clear that the sector, as a whole, is equipped to respond to these challenges without compromising on the quality of care. A recent audit of skills in the social care sector found that more than a third of the adult care workforce holds no qualifications at all. Over half are qualified to Level 2 or below.

27 This figure is calculated without adjusting for unpaid travel time. L. Besse., C. Forde., S. Moore., M. Stuart, The National Minimum Wage, earnings and hours in the domiciliary care sector, University of Leeds (2013)
28 www.nmds-sc-online.org.uk/Get.aspx?id=829408
Engaged employees should help an organisation work smarter, not just harder. Figure 6 below gives an indication of this.

Indeed, the capacity to redesign jobs can itself help motivate staff, particularly when people feel their skills are under-utilised. Our roundtable discussions again highlighted that the opportunity to use and develop skills was considered as integral to job satisfaction. But skills-mismatch can also lead to a lack of engagement and low levels of job satisfaction, for instance, as can be seen where graduates are unable to find work commensurate with their skills.

The role of the manager in today’s workplace is therefore not just to set clear objectives and facilitate ongoing professional development, but to engage staff as service designers and problem solvers in their own right. Giving employees a sense of control and autonomy can be the key factor in delivering higher performance and coping with higher demands when resources are becoming scarcer.

This in turn requires the right collaborative culture within organisations, supported by institutional structures which facilitate dialogue between employees and those further up the organisational hierarchy: a ‘two way street’. Dignity and respect is as important in the workplace as in an elderly care home or a school classroom.

This does not negate the need for hierarchy, but does point to the importance of information flowing in both directions, rather than simply from the top down. Indeed, collaboration needs to become the hallmark of tomorrow’s public body, with engaged staff in good jobs focused on a clear purpose and set of outcomes, if the productivity challenge in the public sector, and more widely, is to be met.
Conclusion

The challenge of raising productivity in the UK economy as a whole, and the public sector in particular, has no easy answers. However, we strongly believe that engagement is the key to unleashing the productive potential of any workforce, but particularly a public sector workforce that is being challenged by a continuing funding squeeze at the same time as demand continues to increase.

This raises important implications for:

- **Policymakers**: to think harder about what productivity means in the public sector – and how to measure it. This means building on recent moves by the Office for National Statistics to base measures more around the achievement of outcomes that are important to governments and service users.

- **Leaders and managers**: to engage staff by connecting them to the organisation’s purpose; empowering and enabling staff to co-design improvements to processes and jobs, not just as a motivational tool, but as a key source of information about how services, productivity and outcomes could be improved; and strengthen two-way communications with staff to improve collaboration in the workplace.

- **Human Resources departments**: to consider the core capabilities required to work in a more dynamic and innovative public sector. These capabilities should include specialist expertise, but also the appetite and capacity to work with the public in redesigning services for improved outcomes and productivity. HR Departments must have the technical capability to advise on the construction of roles and organisational structures to ensure that these elements encourage the overall design of good jobs and effective organisational management.

- **Providers of learning and development**: to coach and develop public sector staff to enable more adaptable talent and more collaborative ways of working within and outside the public sector.

- **Remuneration committees and pay bodies**: to develop policies which attract and retain talent in smaller but more highly skilled public sector workforces and which incentivise improvements in productivity and the delivery of outcomes.

There is no silver bullet to improving public sector productivity, but a focus on designing good jobs which engage staff is a good place from which to start.
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Demos is now exploring some of the most persistent frictions within modern politics, especially in those areas where there is a significant gap between the intuitions of the ordinary voter and political leaders. Can a liberal politics also be a popular politics? How can policy address widespread anxieties over social issues such as welfare, diversity and family life? How can a dynamic and open economy also produce good jobs, empower consumers and connect companies to the communities in which they operate?

Our worldview is reflected in the methods we employ: we recognise that the public often have insights that the experts do not. We pride ourselves in working together with the people who are the focus of our research. Alongside quantitative research, Demos pioneers new forms of deliberative work, from citizens’ juries and ethnography to social media analysis.

Demos is an independent, educational charity. In keeping with our mission, all our work is available to download for free under an open access licence and all our funders are listed in our yearly accounts.

Find out more at www.demos.co.uk

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