

## Written evidence submitted by Doctor Aman Kenjegaliev (Lecturer in Economics at University of Hull)

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1) One of the important areas while focusing on efficiency is employment. Typically, the largest share of expenditure in industry is labour costs. Hence, corporations cut on labour costs or use fewer staff to achieve efficiency<sup>1</sup>. There are also similar policies applied by the UK government<sup>2</sup>. Indeed, as table 1 indicates staff expenditure increased during the analysed period. An overall increase of approximately 35% compared to 2011. Hence, even after adjusting for inflation it seems that there is a potential to save on this expenditure.

2) Table 1 also indicates that there is a sharp increase in staff costs starting 2017 and peaked in 2018 which is accounted for more than 30% increase in costs compared to 2011. At the same time, it shows not marked difference for the rest of the macroeconomic variables: population, GDP or inflation. Moreover, there is a decrease in inflation rates in 2015 but it is “recovered” in consecutive years. Also, in pre-Brexit years percentage change in staff costs and in staff costs per capita were negative.

3) However, despite this evidence it is naïve to think that efficiency can be gained by staff reduction and that the costs can be saved by having fewer staff. Firstly, there is simple explanation for this surge in expenses which coincides with Brexit and increased demand for legal and other Brexit related processes. Secondly, the civil services are already working at the maximum capacity and it is evident, for example, from nurse shortages in NHS or long queues at border controls<sup>3,4</sup>. Unfortunately, the data provided by NAO does not show staff expenses for the most recent Covid years but IfG reports significant increase in civil service workforce in 2021<sup>5</sup>.

4) It is imperative to remember that the government is not a corporation and their aims are not the same. The focus of the private firms is maximising profits while the focus of the government is wellbeing of the nation and society. Therefore, a simple cut of civil servants is not a solution without accompanied increase in employment in other sectors of the economy. Otherwise, the government will simply support them through direct government transfers. Surely, ballooning of the staff numbers is not acceptable and hence the expenditure should be kept at a healthy level. However, in the long run, the reduction can be achieved only by using innovative technologies that support work processes.

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<sup>1</sup> <https://hbr.org/2018/05/layoffs-that-dont-break-your-company>

<sup>2</sup> <https://www.nao.org.uk/wp-content/uploads/2021/07/Efficiency-in-government.pdf>

<sup>3</sup> <https://nhsfunding.info/symptoms/10-effects-of-underfunding/staff-shortages/>

<sup>4</sup> <https://www.bbc.co.uk/news/uk-58448565>

<sup>5</sup> <https://www.instituteforgovernment.org.uk/explainers/civil-service-staff-numbers>

5) Hence, innovation should be promoted within the government departments. For example, Home Office introduce Atlas caseworking system to increase processing times for the immigration officers.<sup>6</sup> However, innovation does not necessarily translate into higher innovation quality and this fact have direct negative impact on government efforts. In our recent research, I teamed up with academics from Bath University and Sheffield University to detect the quality of innovation. Similar models can be applied by the government. In principle, they can be used both at a macro scale such as departments and agencies, and also on a micro level such as hospitals and councils. Once the quality of units is identified, there can be targeted measures to improve efficiency.

6) Overall, I believe that instead of trying to increase government efficiency by reducing staff numbers (one of the proposed measures), it is possible and much more effective to identify and improve the quality of the government departments. To achieve this, the focus of efficiency efforts should be shifted from employment to innovation quality.

Table 1: Staff costs in comparison to other macroeconomic variables.

	Staff costs (abs., £bn.)	Staff costs (% change, year to year)	Staff costs (2011 constant prices, £bn.)	(3)-(1)	Staff costs per capita (% change, year to year)	Inflation (%)	UK population (% change, year to year)	GDP per capita (% change, year to year)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<b>2018</b>	256,00	18.52%	208.63	-47.37	17.81%	2.30%	0.60%	2.91%
<b>2017</b>	216,00	13.09%	203.94	-12.06	12.42%	2.60%	0.60%	3.10%
<b>2016</b>	191,00	-1.04%	198.78	7.78	-1.85%	1%	0.83%	3.06%
<b>2015</b>	193,00	-0.52%	196.81	3.81	-1.30%	0.40%	0.79%	2.23%
<b>2014</b>	194,00	4.30%	196.02	2.02	3.51%	1.50%	0.77%	3.85%
<b>2013</b>	186,00	1.64%	193.13	7.13	1.00%	2.30%	0.63%	3.36%
<b>2012</b>	183,00	-0.54%	188.78	5.78	-1.20%	2.60%	0.66%	2.43%
<b>2011</b>	184,00	-	-	-	-	3.80%		-

Data source: National Audit Office and Office for National Statistics

Views presented in this report are my own

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<sup>6</sup> <https://www.bjss.com/our-work/home-office-atlas>