

# Cutting Government Running Costs in the UK: What Can We Learn from Past Experience?



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## Summary

The current UK coalition government aims to cut administrative costs in central government by 34 % between 2010 and 2014. So what evidence is there that cuts on this scale might be possible? Has there ever been a period in the recent past where comparable reductions have been achieved? Carefully piecing together central government administration costs data from the past three decades, we find no reductions on anything like the scale currently planned were achieved over that time, even – indeed especially – during Margaret Thatcher’s premiership. We also find that, despite the recurring emphasis on efficiency and cost containment, government made it almost impossible to keep track of its performance over time because of instability in the way it reported its running or administrative costs.

## Looking Back to Previous Attempts to Cut Costs.

With pressure to cut budgets, especially of running costs, at the centre of the policy agenda for many governments, in the UK and elsewhere, can we learn from the history of past attempts to improve management and raise efficiency in the public services? After all, it is often said that the new managerialism associated with the Thatcher government in the UK in the 1980s made cost-cutting of ‘bloated bureaucracy’ its central theme, and since then there has been a succession of efficiency reviews that have made dramatic claims to cut government’s costs and improve performance by means such as better management or IT applications.

**Three Strands of Evidence:** Looking at the critical case of the UK, our study examines what happened to operating costs over three decades, using three main sources of reported data, namely.

- Central government running or administration costs, in real terms and relative to total spending
- Costs of collecting taxes, in real terms and relative to total tax yield
- Paybill costs in central government

## Exhibit A: UK Central Government Running Costs (excluding the Ministry of Defence) 1980-2009

Figure 1.

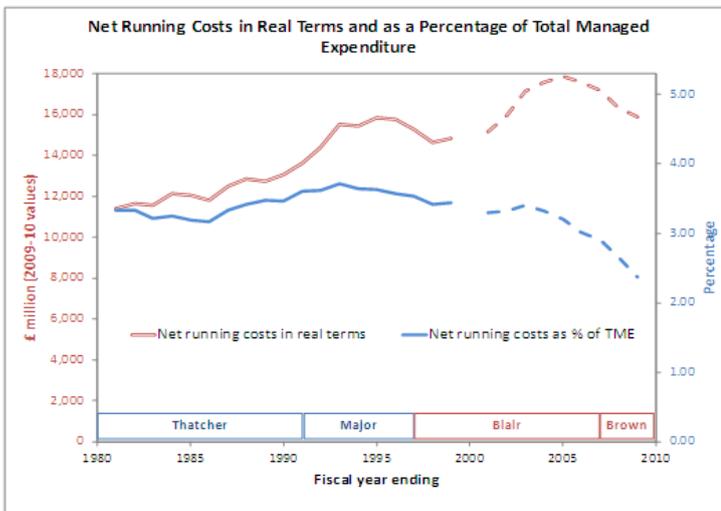
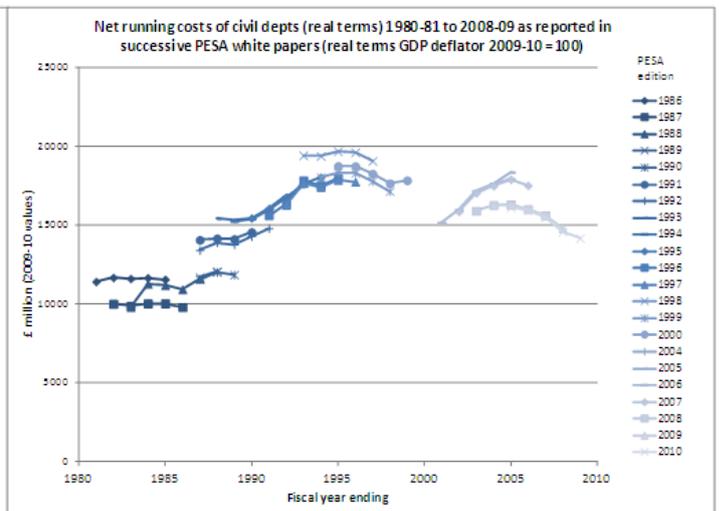


Figure 2.



**Figure 1** shows running costs net of fees and charges for goods and services (e.g. issuing passports), expressed in 2009-10 prices using the GDP deflator (costs in Figures 2, 4 and 5 are expressed in the same way). The dotted lines show the reported numbers after the Gershon Efficiency Review of 2004-5, which cannot be compared directly with the earlier period, for reasons explained below.

## Exhibit A: Government Running Costs 1981-2009

The numbers in Figure 1 are from the Public Expenditure Statistical Analyses (PESA), the official annual reports of government spending [http://www.hm-treasury.gov.uk/pespub\\_index.htm](http://www.hm-treasury.gov.uk/pespub_index.htm). But these costs are not presented as a single series. Instead, they appear in short runs, with frequent and sometimes major reclassification changes, as is shown in Figure 2. To construct Figure 1, we expressed the numbers in a constant series by reverting to the original basis of classification. The dotted lines in Figure 1 represent numbers that are not fully comparable with the earlier series because there was no overlap in the reporting of the figures that would enable us to express them in the 1980s format.

As can be seen from the upper (red) line in Figure 1 the net running costs increased strikingly in real terms throughout this period apart from the mid-1990s and the late 2000s, and ended higher in real terms at the end of each Prime Minister's tenure than they had been at the start.

Though current policy preoccupations are with a reduction in absolute, not relative, administration costs, we can get a rather different picture if we relate running costs to total spending and the lower (blue) line in Figure 1 depicts what happened to running costs (net of fees and charges) as a percentage of 'Total Managed Expenditure' (TME). As can be seen, that ratio remained fairly constant until the early 2000s and then fell by about one percentage point. However, UK public spending was increasing at an accelerating rate over this period and approximately doubled between 1990 and 2009 in real terms. That leaves us with a question to which there can be no definitive answer: is a one percentage point fall in relative administration costs during a time when public spending doubles evidence of good performance?

### The 'data break' in the early 2000s: effects of the 2004-5 Gershon Efficiency Review

If different PESA editions are compared, there appears to be a fall of some 15% in real terms of net administration costs between fiscal years 1998-9 and 2000-1 (Fig.2). But that 15% fall was less the product of a real efficiency revolution than of a reclassification - PESA simply stopped counting prison officers, immigration officials, etc., as 'administration'. This is noted in a footnote in PESA 2005 and attributed to the Gershon Review. But even that reclassification was not applied uniformly across government departments, because some front-line civil servants (Job Centre staff, tax inspectors etc.) were still counted in the administration budget. That's why we need to look at other long-term data series to understand the picture more fully.

## Exhibit B. Tax Collection Costs

Tax collection is a central plank of deficit-reduction strategy, and we might also expect tax collection (and welfare administration) to be a field in which managerial changes might have dramatic effects on productivity, for instance through creative applications of modern IT. The net costs of collection of direct and indirect taxes divided by net revenues (cost/yield) are shown in Figure 3 and the absolute costs of collection in Figure 4.

Figure 3.

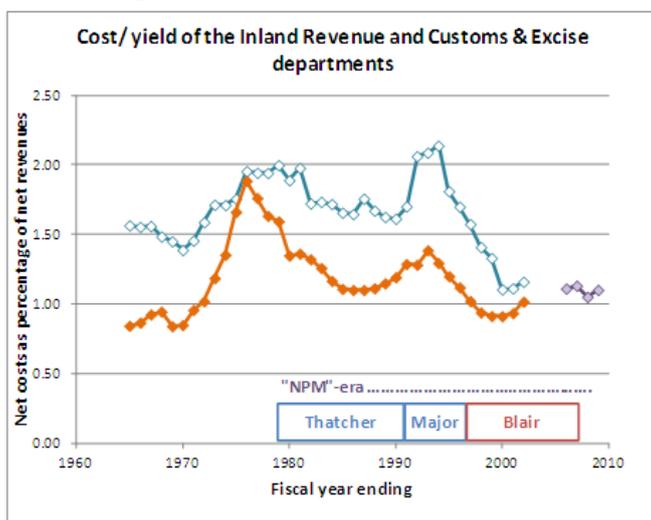
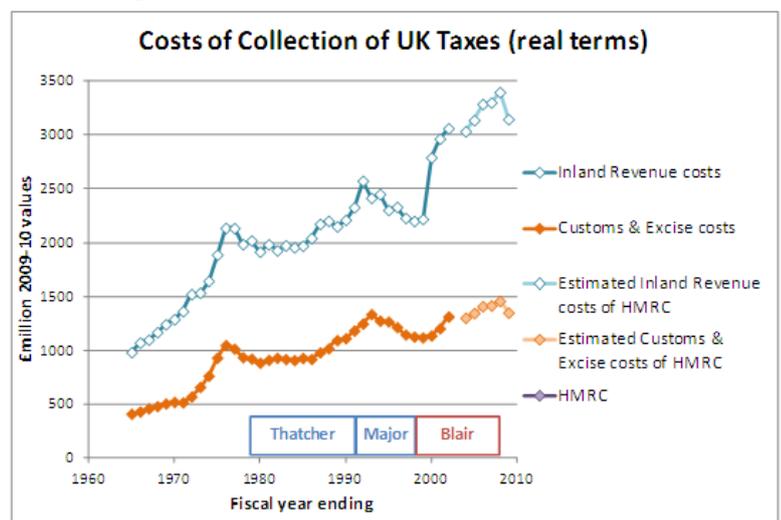


Figure 4.



Sources: Annual Reports of Inland Revenue, HM Customs & Excise, and HMRC.

Figure 3 indeed shows a fall in cost/yield since the early 1980s for both Inland Revenue and Customs & Excise (which merged to form HM Revenue & Customs in 2005). But that was driven largely by tax revenues increasing faster than costs. Again, if we focus on absolute costs, the subject of current policy preoccupations, Figure 4 shows that such costs rose (albeit unsteadily) in real terms over the whole period.

### Exhibit C. Civil Service Paybill Costs.

The cost of employing the civil service has been a central target of cost-cutters for many decades, by means such as outsourcing and privatization. But this is another area where official definitions keep changing to an extent that only a combination of high effort and careful detective work can produce a consistent data series over time. Our best effort at compiling such a series is shown in Figure 5, which puts together and matches up three different statistical series (the blue, green and black series in Figure 5).

Figure 5.

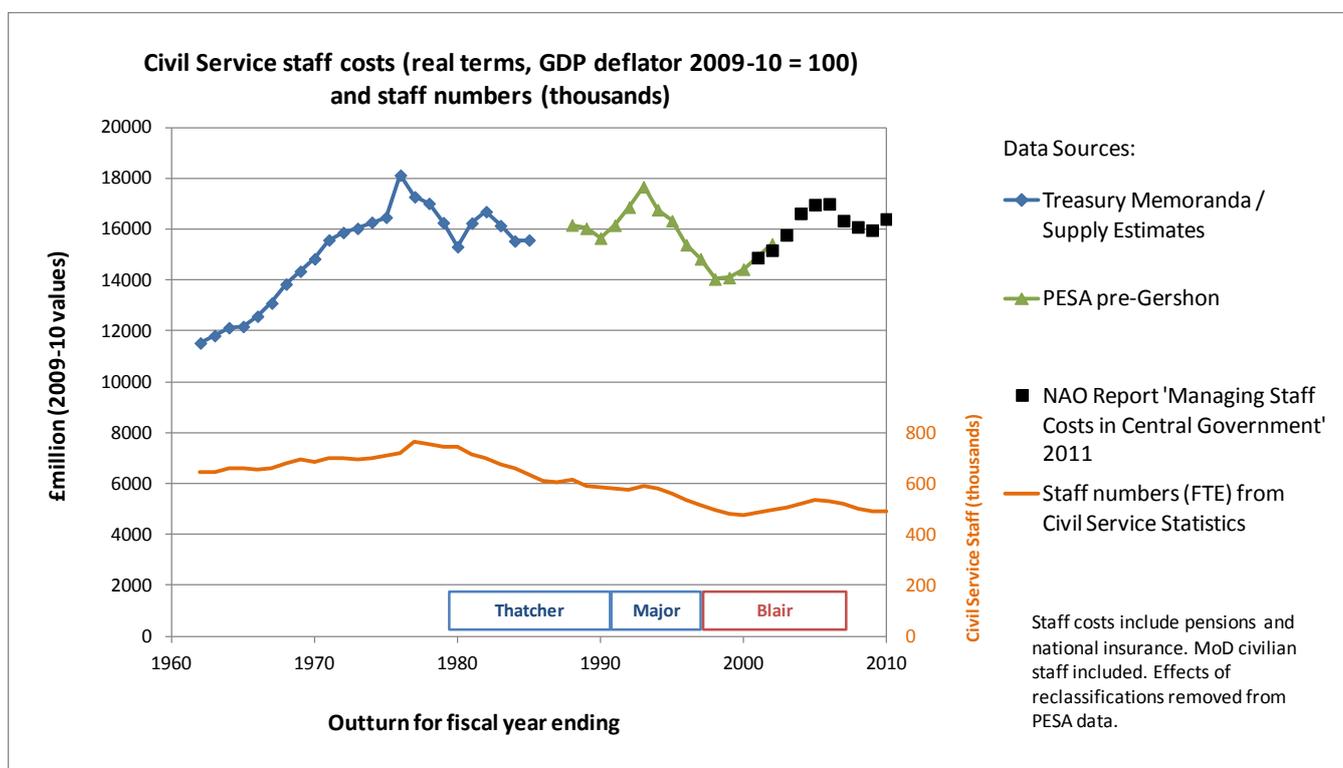


Figure 5 shows that although the Civil Service fell in size by about 35 % over this period, the cost of employing the Civil Service remained about the same in real terms, with some fluctuations (though the civil service paybill fell significantly relative to total government spending). Policy makers should therefore not assume that cutting civil service headcount will automatically yield absolute cost savings in paybill.

### Scorecarding these Results

A way of producing a notional 'scorecard' to bring together the three 'exhibits above, in the light of current policy preoccupations with absolute cost cutting, is to give +2 for each fall (>5%) in absolute costs; -2 for each rise (>5%) in such costs; +1 for each fall in costs relative to TME/yield; and -1 for each rise in such costs. If we weight the three exhibits (running costs, tax collection costs and civil service pay) equally and ignore changes of less than 5% (as arguably within the range of measurement error), that means the top possible score would be 9 and the lowest score would be -9. The whole three decades being considered here (1980-2009) yields the less than dramatic overall score of -1. Each of the individual decades was similarly unimpressive, with the least impressive performance in the 1980s under Margaret Thatcher (scoring -3). The only 5-year period that scored the maximum on every indicator (a 'perfect 9') was the last 5 years of John Major's premiership from 1992 to 1997, as shown in the table overleaf.

Real Terms Cost Reductions and Productivity Gains during the later John Major Premiership (FY 1992-3 to 1997-8) – a period when TME was relatively stable (rose about 3 % in real terms)				
	Percentage Change		Scorecard	
	Absolute	Relative to TME	Absolute	Relative to TME
<b>Exhibit A</b> (net running costs)	-6 %	-8 %	2	1
<b>Exhibit B</b> (tax collection costs)	-11 %	-32 %	2	1
<b>Exhibit C</b> (civil service paybill costs) (civil service staff numbers)	-21 %	-23 % -17 %	2	1

## What can we draw from this analysis?

### General conclusions

Looking back at over three decades of managerial changes and efficiency drives in UK central government, there is no clear example of administrative cost-cutting that comes close to what current policy-makers are aiming for, though reclassifications can make it almost impossible to track costs accurately over time.

### Practical or policy conclusions

- Cuts in civil service staff numbers do not always translate into equivalent cuts in staffing costs
- Cuts in staffing costs do not always translate into equivalent cuts in overall running costs
- Relative costs tend to fall when overall spending or tax revenue is sharply rising – leading to the ironic conclusion (unhelpful for current policy-makers) that the ‘best’ way to cut relative costs is to spend (or tax) more
- Government and Parliament cannot practicably ascertain whether performance is improving or otherwise over time when the numbers keep changing in a way that makes over-time comparison as hard and costly as possible.
- Even the ‘perfect 9’ scored in the late John Major period yielded less than one fifth of the 2010-14 UK administrative cost saving target of 34 per cent (though the paybill cuts came close to the 2011-15 Scottish cost saving plan).

## Source and Acknowledgement

The paper on which this briefing is based is C Hood and R Dixon 2012. ‘A Model of Cost-Cutting in Government? The Great Management Revolution in UK Central Government Reconsidered’ *Public Administration* 2012 <http://onlinelibrary.wiley.com/doi/10.1111/j.1467-9299.2012.02072.x/abstract> where our sources and methods are set out in full.

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## Further Reading

Andrews, R. 2011. ‘NPM and the Search for Efficiency’, Chapter 19 in T. Christensen and P. Laegreid (eds), *The Ashgate Research Companion to New Public Management*. Farnham, Surrey: Ashgate.

Carrera, L., P. J. Dunleavy, and S. Bastow. 2009. *Understanding Productivity Trends in UK Tax Collection*. LSE Public Policy Group Working Paper. London: LSE PPG.

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