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Will the pandemic help solve the UK's 'productivity puzzle'?

The great reset of the pandemic has the potential to launch the UK's productivity back on course, following record low levels in 2019 – but the key to unlocking post-pandemic productivity not only lies in further and greater technology adoption, but also in reskilling.

The UK's productivity levels stagnated during the 2008 financial crisis and have since failed to recover. Eight years later, the UK's output per hour worked was 16.3% lower than that of the other G7 countries, according to the **Office for National Statistics**. Brexit uncertainties in 2019 have only helped to fuel this slump, with research from academics at the University of Sussex and Loughborough University showing a slowdown leading to productivity levels being 19.7% below the **pre-2008 trend path in 2018**.

An opportunity to kickstart the new age of productivity

However, the pandemic has the potential to revitalise the world of work in the UK, kickstarting a new age of productivity. Historically, eras of difficulty have led to greater automation and great productivity growth, with the 1930s Great Depression in America being a prime example. Could such momentum be achieved in the UK coming out of the pandemic?

A **Bank of England Working Paper** from 2020 predicted that the Covid-19 pandemic would reduce Total Factor Productivity (TFP) in the UK private sector by about 3% between 2020 Q1 and 2021 Q2, peaking at 5% in 2020 Q4, compared to the rates had the pandemic not taken place. The Office

for National Statistics similarly reported that output per hour, and therefore overall productivity, had decreased by 0.7% in Q4 2020 compared to Q4 the year before. A December 2020 White Paper from the Bank of England highlighted that "increased costs associated with measures to contain Covid-19 will have acted to reduce productivity within firms. These higher intermediate inputs will accordingly push down on value added relative to sales, such that labour productivity within firms will be lower".

Our own Great Opportunity research showed that despite 45% of respondents believing their organisations had been more productive whilst working from home, for some companies productivity has decreased due to the environment the pandemic has created. Remote working, throughout 2020 and further into 2021, has placed constraints on collaborative working for workers who have had to learn to do their work in a different context. Whilst various video conferencing software and collaboration websites have aided in bridging engagement and collaboration gaps between office and remote working, they have not become an absolute replacement.

Hybrid working to create a flexible workforce

The loss of this same level of collaboration has inhibited creativity and innovation for some, however, where companies have been willing to invest in the infrastructure to support their employees working from home, there have been more positive results. Our Great Opportunity research found that 53% of decision makers cited collaboration tools within the top three methods for driving productivity deemed most effective for their organisations. The introduction of

hybrid working as a new model takes the best of both worlds, creating a flexible workforce which can work from the comfort of home, with the chance to enhance relationships at the office, which might otherwise be held back by only engaging online.

Additionally, the UK Government's Skills and Post-16 Education Bill, published in May, takes bold steps in acknowledging the importance of lifelong learning in reskilling the economy and improving productivity. Therefore, to boost the bounce back of productivity in the UK, employers and local/regional public bodies must take advantage of this new government investment in adult education, to help drive the right outcomes. The focus must be on long-term programmes rather than short-term programmes. For example, Kickstart, the government scheme which provides funding to employers to create jobs for 16–24-year-olds, whilst very helpful as part of the national Covid-19 recovery, can be difficult to administer effectively and by its own nature only aids in raising productivity in the short term. Whereas, employing longer-term programmes such as Apprenticeships, Adult Education Budget and employability programmes helps to ensure a more sustained productivity boost.

The trigger for better

As we head into the final quarter of the year, there is hope that the successful administration of the Covid-19 vaccine will begin to fuel a noteworthy boost to business confidence and therefore, increase overall willingness to invest, leading to potential increases to productivity. Additionally, as workers become more and more comfortable with remote working and following further investment by employers, we may begin to see a rise in productivity, reflected by the 42% of respondents from Capita's YouGov research who believed that changes to their personal productivity are a long-term trend.

We have seen the pandemic used as a trigger for a variety of social causes such as the sustainability movement, so why not also use it to catalyse an increase in UK productivity? The rapid adoption of new technologies caused by the pandemic has led to widespread digitisation throughout multiple business sectors, and this same technology could be used to accelerate annual productivity growth thanks to improved efficiency caused by this accelerated digitisation and automation.

Whilst this increase in productivity will be driven by technology, the demand for corresponding skills, utilised at the correct time and place to be effective will still remain. The problem that the UK workforce faces is that growth in this new environment is subject to workplace skills shortages, gaps and mismatches. The key to unlocking post-pandemic productivity not only lies in further and greater technology adoption, but also in reskilling and retraining. Whilst many companies will find themselves in financially strained situations coming out of the pandemic, and therefore, hesitant to invest in skills, training and automation and strong government assistance should convince nimble businesses to save costs elsewhere and invest in upskilling their workforce, as well as digitalising further. This could be transformative for the UK and increase productivity, with businesses who grasp this opportunity with both hands finding themselves the long-term winners in the years following the pandemic.

“As a nation, developing automation technologies to replace low skills and retraining workers into higher-skilled work would be a sensible strategy. This crisis will continue to push many people out of jobs. This is a golden opportunity to retrain them to prepare for that future.”

Dr Jun Du, Professor of Economics at Aston Business School