

# Public sector cities: Supporting paper\*

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## 1. Introduction

The public sector is a major employer in UK cities. As the level of public spending is reduced the public sector will shrink. This will have a significant impact on UK cities' economies. This supporting paper provides context and analysis which supplements the report *Public sector cities: Trouble ahead*

## 2. The public sector in context

### 2.1 Counting the public sector

The two most relevant measures of public sector employment are the Office of National Statistics' (ONS) Public Sector Employment (PSE) dataset and the Annual Business Inquiry (ABI) public administration, health and education broad industrial group.<sup>1</sup> The ABI definition is wider than the PSE definition, which excludes employees paid for by the government but not directed by it, for example, GPs, university and further education staff, and agency and contracted workers, as well as privately provided education and health services.<sup>2</sup>

As a result the PSE definition undercounts the real level of public sector growth. This is acknowledged by the fact that the ONS periodically produces a PSE time series dataset adjusted to the Labour Force Survey (a further count which closely tracks the ABI).

The main report, and this supporting paper, primarily use the ABI definition as only the ABI definition is available at the city level. The PSE definition is employed to measure longer term public sector trends. A discontinuity in the ABI dataset means that care is required when observing growth that spans the years 2005 and 2006.

The ABI definition has grown faster than the PSE definition over the past decade. This demonstrates some of the overarching trends that have taken place in public sector employment. Particularly notable is the increase in the contracting out of services and the use of agency staff. In the current environment the contracted workforce should prove easier and more cost effective to restructure, and so public sector employment may be more flexible than has previously been observed.

### 2.2 Size of the public sector

Analysis of the ABI also provides a helpful way of understanding the structure of the sector. The broad industrial group 'public administration, education & health', contributed 7.16 million jobs to the economy in 2007, 26.9 percent of total employment. Figure 1 shows the sub-sectors of the ABI public

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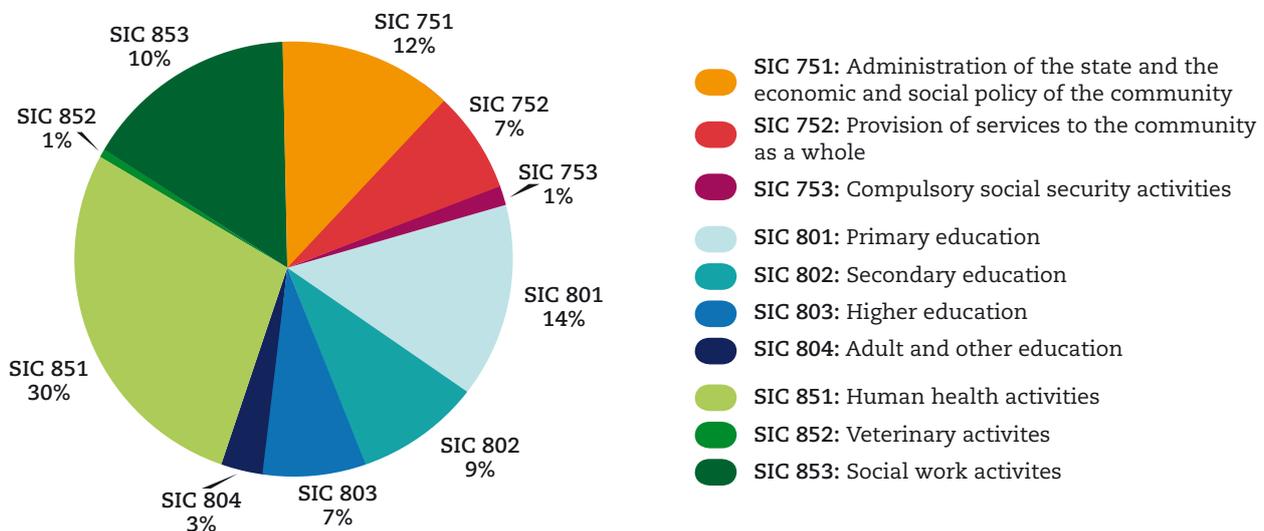
\*Public sector cities: Trouble ahead is available at [www.centreforcities.org/publicsectorcities](http://www.centreforcities.org/publicsectorcities)

1. This report also uses the Workforce jobs definition, which correlates closely with the ABI dataset.

2. Employees paid for but not directed by the state are excluded from the PSE series in line with the National Accounts.

sector definition, grouping the sub-sectors by category. Using this definition, 12 percent of the public sector is engaged in central and local government type activities (SIC 751), seven percent work in fire, police and judicial roles (SIC 752), 34 percent work in education functions (SIC 801 – 804), 30 percent work in health activities (SIC 851) and 16 percent work in social work (SIC 853).

**Figure 1: Structure of public sector employment (2007)**



Source: Nomis, Annual Business Inquiry, 2009

Based on the PSE definition, in the first quarter of 2009 the public sector employed 5.77 million people (19.7 percent of total employment). Forty-four percent of this employment (by headcount) relates to central government functions, 50 percent to local government functions and six percent to public corporations. Twenty-five percent of public sector employment is in education (attributed to local government) and 27 percent is in the National Health Service (attributed to central government).<sup>3</sup>

### 3. Public spending is set to tighten

#### 3.1 Public spending cuts are likely

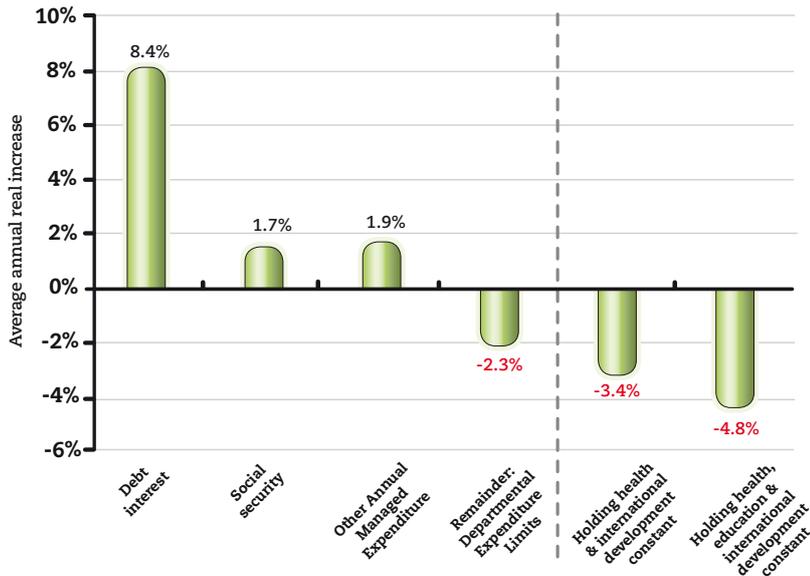
The next government will be faced by the need to re-evaluate public service provision and reduce government spending. This will have an impact on the type and quality of services delivered and the number of people employed by the public sector. Under the Government’s present plans, outlined in the 2009 Budget, current spending is expected to grow by just 0.7 percent a year in real terms during the next spending review period, April 2011 to March 2014. Total spending will fall by 0.1 percent a year as investment spending falls dramatically, albeit partly as a result of the Government bringing forward capital investment to act as a Keynesian demand stimulus.

The cost of the recession - the higher outlay on social security benefits, lost tax revenues, higher debt interest payments and the financial interventions to support the banking system - means that future Government spending is going to be considerably constrained.

As a result, the Institute for Fiscal Studies (IFS) has forecast that current expenditure for central departments as a whole will fall by 2.3 percent during the next spending review period with only the Department for International Development expected to see a real increase (Figure 2).

3. Office of National Statistics (ONS) (2009) Public Sector Employment – first release

**Figure 2: IFS spending predictions (2011-14)**



Source: Tetlow G (2009) *Reactions to the Budget – public spending, presentation by the IFS, 23 April 2009*; Centre for Cities calculations for last two columns.

Given that health and education are likely to receive some protection, the reduction for other departments will be even more severe. Extrapolation of the IFS figures suggests that if spending on health, education and international development is held constant at 2010-11 levels, all other departments will see spending fall in real terms at an annual average rate of 4.8 percent. This would equate to a 13.7 percent fall over the course of the 2011-14. Similar calculations have been used by the Conservatives to arrive at the 10 percent cut for all departments except health and international development.

It is likely that the departments that invest heavily in cities, such as the Department of Transport, the Department for Business, Innovation and Skills, and Communities and Local Government, will see their budgets cut substantially.

The potential remains for far larger cuts to public spending. The public borrowing figures for May exceeded expectations, and the budget deficit for 2009-10 may now reach £200 billion, rather than the £175 billion set out in the Budget.<sup>4</sup> The Chartered Institute of Public Finance & Accountancy has already calculated the impact of a scenario in which public spending by local authorities is cut by as much as 40 percent.<sup>5</sup> However, as the economy has shown signs of recovery the likelihood of such an outcome has fallen. Standard and Poor's, the ratings agency, recently put the UK on negative watch indicating that the country may lose its AAA status. This would raise the cost of government borrowing, putting further downward pressure on the amount available to be spent on services.

### 3.2 Local government finances

Over the next decade local government will be under severe pressure to reduce its level of spending.

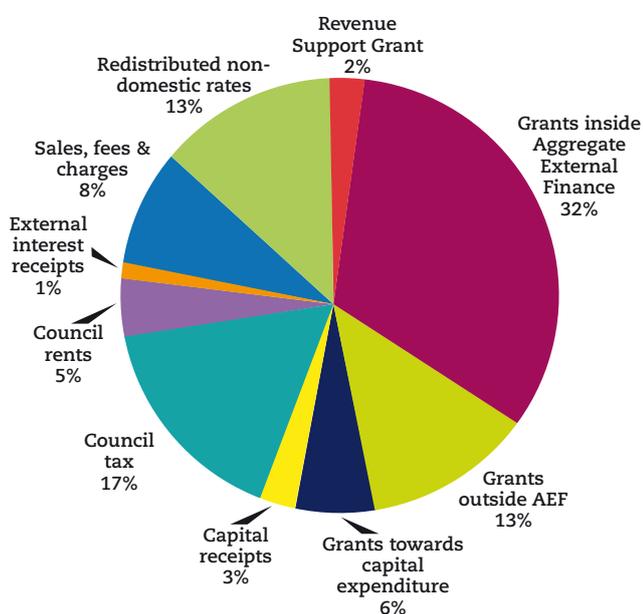
Councils have already taken steps to improve their efficiency. Local government met the previous Gershon targets a year ahead of schedule. Over the current spending period (2008-11) local government is required to deliver £5.5 billion of annual net cash-releasing savings.<sup>6</sup> In addition, central government has issued clear directives on council tax capping, leading to an average rise of three percent in 2009-10.<sup>7</sup>

4. Institute of Fiscal Studies (IFS) (2009) *Public finance bulletin – June 2009*, London: IFS  
 5. Local Government Chronicle (LGC) (2009) 'Armageddon - the Great Depression', published March 2009  
 6. HM Treasury (2009) *Budget 2009*, London: HMT  
 7. LGC (2009) 'Rein in future tax rises, Healey warns', published April 2009

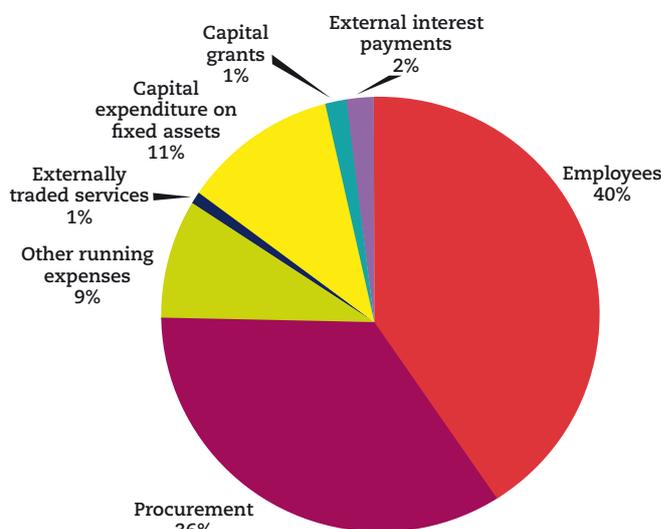
Councils are also faced with declining revenues from other sources. Income from planning fees from developers, receipts from Section 106, parking fees and the interest accrued on reserves have all fallen.<sup>8</sup> However, given that sales, charges and council rents only contribute on average 13 percent of a local authority's budget (Figure 3), the effect may be marginal. However, evidence suggests many Council leaders are cutting staff numbers in response to these losses.

As outlined above year-on-year spending cuts could easily reach five percent. This will require a completely different approach to reducing budgets to the efficiency agenda progressed thus far. While the next few years will be difficult for local authorities, their dependence on central government grants means that it is in the period after 2011 that financial conditions will become especially constrained. Income could fall sooner if an incoming government were to hold an emergency Budget and reopen the local authority grant settlement for 2010-11.

**Figure 3: Sources of local government income, England (2007-08)**



**Figure 4: Local government expenditure, England (2007-08)**



Source: Communities and Local Government, Local Government Financial Statistics, 2009

Given that 40 percent of total local authority expenditure is on employees (50 percent of service expenditure), achieving such stretching targets will be unachievable without reducing the number of people a local authority employs (Figure 4). Of the £61.7 billion currently spent by local authorities on employees, 77 percent of expenditure is on pay. Forty-four percent is spent on local authority staff while 33 percent is spent on teachers.<sup>9</sup>

### 3.3 The rising cost of the public sector

Public sector pay has a tendency to increase even if the performance of the service does not improve. Partly, this is a result of the collectivised wage bargaining system and a high level of unionisation. In 2004, 59.3 percent of public sector employees were union members compared to 16.3 percent in the private sector.<sup>10</sup>

8. The Audit Commission (2008) *Crunch time? The impact of the economic downturn on local government finances*, London: Audit Commission

9. Communities and Local Government (2009) *Local Government Financial Statistics England No.19*, London: CLG

10. ONS (2005) *Public Sector Employment Trends 2005*, Newport: ONS

Public sector pay also rises faster than service improvement because of the phenomena of **Baumol's cost disease**.<sup>11</sup> This theory states that in labour intensive sectors, such as the public sector, wages often rise even though there has been no improvement in productivity. Salaries are forced upwards in order to compete with those industries, such as manufacturing, where productivity growth has taken place, predominantly through technological change.

As we become wealthier our demand for certain goods increases. Health and education are both examples of **positive income elasticity goods**. As incomes rise we choose to spend an increasing proportion of our total expenditure on purchasing such goods. If public sector provision attempts to satisfy this demand it is inevitable that the proportion of government spending on these services will increase. This also means that it is likely that if government expansion ceases but incomes continue to rise, the growth of these sectors will continue and private provision will increase its market share.

## 4. Which areas of public sector employment will be impacted?

The various parts of the public sector are not equally exposed to the impact of potential job losses. Some services are viewed as more vulnerable to retrenchment than others.

### 4.1 Local government

Local authorities have already shown that they are not immune to the impacts of the recession. While total public sector employment increased by 23,500 jobs between the third quarter of 2008 and the first quarter of 2009, local government employment fell by 3,000 jobs.

In the immediate future it is likely that the majority of local government workforce reductions will occur through regular staff turnover and retirements. However, local government generally has a fairly low staff turnover rate, around 10 percent.<sup>12</sup> In a climate of reduced employment opportunity this may fall further. If staff turnover were to fall to around five percent, forced redundancies could be required.

Cities show quite considerable divergence in the number of local government employees per capita (including education staff). Of the Core Cities,<sup>13</sup> Leeds employs 57.9 local government staff per 1,000 of the population compared with Bristol where the number is 39.7 (Figure 5). Of the Core Cities, only Bristol is below the national average.

The variation between the local government employees per capita suggests that the scope for reductions is more apparent in those cities that have larger operations, such as Leeds, Newcastle and Birmingham. These cities may be able to increase the level of back office collaboration and outsource further administrative functions.

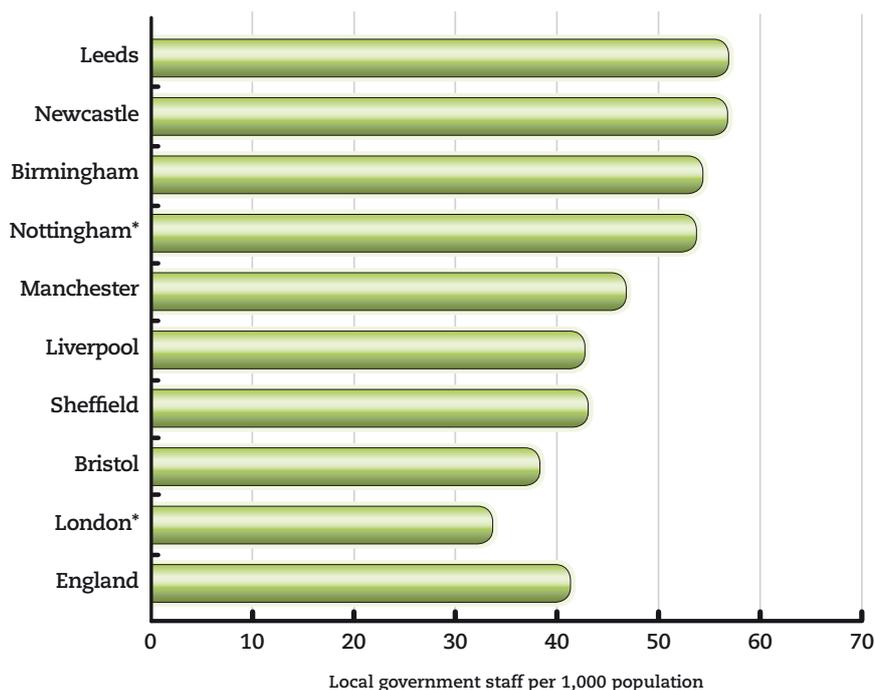
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11. Heilbrun J (2003) 'Baumol's Cost Disease' in Towse R. (ed.) *A Handbook Of Cultural Economics*, Cheltenham: Edward Elgar

12. Local Gov (2007) 'Nine out of 10 are satisfied', website accessed June 2009

13. Using their Primary Urban Area (PUA) definition

**Figure 5: Local government employment per capita in the Core Cities (2007)**



\* PUA definitions used. Data for London and Nottingham presents a compromise. The assignment of relevant County Council staff has been made on the basis of the District Council proportion of the County Council population.  
 Source: Local Government Association, Local Government Workforce statistics Q2 2007, 2009;  
 Nomis – mid-year population estimates, 2009

## 4.2 Civil servants

The civil service employs 526,000 people in the UK, of which 81 percent are based in England. Of the civil service employment in England, 60 percent is located outside of the Greater South East (GSE), although much of this is in non-policy functions such as Defence, Jobcentre Plus, the Crown Prosecution Service and the Courts.

While some of these services are evenly spread and Jobcentre Plus' workforce is currently being expanded,<sup>14</sup> the regionalised clusters of central department offices could be vulnerable to job cuts. These offices were relocated out of London as part of a process that started in the 1970s and accelerated following the 2004 Lyons relocation review.<sup>15</sup> Following that report the Government has moved 19,090 jobs out of London with a target of 24,000 jobs by 2010. While civil service relocations have primarily been about reducing departmental costs, in practice, the wider social and economic benefits to a regional economy have been a consideration in the design of relocation programmes.<sup>16</sup>

While the public sector has added jobs to the cities that government departments have been relocated to, the additional benefit to the economy appears mixed. The cities that have seen the largest number of relocations have seen poor recent growth in private sector employment and in some cases seen a decline. Relocations do not always reinvigorate an economy. A fuller discussion of the crowding out effect will be addressed later in the paper (Section 8.0).

While there has been an increase in the number of public sector jobs outside of London, the majority have been in administrative or lower grade roles. For example, in the North West 3.4 percent of total employment can be attributed to roles in the civil service. However, only 2.0 percent of these roles are at a senior level or 0.08 percent of total employment in the region (Table 2).

14. HM Treasury (2008) Pre-Budget Report, London: HM Treasury

15. HM Treasury (2004) Well Placed to Deliver? – Shaping the Pattern of Government Service, London: HM Treasury

16. See chapter 4 'The impact on communities' in HM Treasury (2004) Well Placed to Deliver? – Shaping the Pattern of Government Service, London: HM Treasury

**Table 1: Cities that have gained posts under the Lyons relocation programme (2004-09)**

	<b>Posts received under the Lyons relocation programme</b>	<b>Private sector jobs - annual growth rate (2004-07)</b>
Liverpool	1,667	0.2%
Manchester	1,169	-1.2%
Newport	1,100	-1.5%
Birmingham	952	-0.8%
Bristol	928	-0.3%
Sheffield	820	-1.2%
Leeds	728	-0.9%
Glasgow	701	0.3%
Newcastle	668	0.8%
Blackpool	503	0.6%
Coventry	484	-0.3%
Swindon	380	1.4%
Cardiff	276	0.6%
Belfast	207	-
Edinburgh	156	-1.7%
Dundee	89	-0.5%
<b>Great Britain*</b>	<b>19,090</b>	<b>0.4%</b>

Source: Office of Government Commerce, Programme Progress – Receiving Locations, 2009; Nomis, Annual Business Inquiry, 2009  
 \*Total city posts sum to less than the national total as not all posts have been relocated to cities

**Table 2: Regional breakdown of civil service employment (2008)**

	<b>Civil service as percentage of total jobs (2008)</b>	<b>Proportion of senior civil service jobs (Senior, Grade 6/7)</b>	<b>Median earnings of Executive Officers (£s)</b>
North East	3.4%	2%	22,180
Wales	3.0%	6%	22,260
South West	2.4%	7%	23,530
North West	2.1%	4%	21,900
London	2.1%	19%	25,420
Scotland	2.0%	5%	23,800
Yorkshire & Humber	1.8%	6%	21,980
West Midlands	1.5%	4%	22,200
South East	1.4%	5%	23,880
East Midlands	1.3%	4%	22,400
East of England	1.3%	4%	23,570

Source: ONS, Civil Service Statistics, 2009; Nomis, Annual Business Inquiry (2007 figures), 2009

Clusters of civil service employment, such as those based in Newcastle, could be vulnerable to job shedding if departments faced with very tight budget settlements are forced to re-evaluate staff sizes. Jobs in London are likely to be the last to go due to the higher profile and policy element of the work, with back office functions predominantly located in the regions. However, regional locations do offer the Government attractive potential cost savings. The median salary of an Executive Officer in the North West is £3,520 less than the London equivalent.

### 4.3 Non-Departmental Public Bodies and quangos

Since 1997, the number of people employed by Non-Departmental Public Bodies (NDPB) – and other arm’s length agencies often referred to as quangos - has grown. Accurate estimates are difficult to form because of the complex process by which public bodies are created, reformed and amalgamated. However, various approximations put total employment in excess of 700,000.<sup>17</sup> The Government’s published figures are for significantly less, with 92,695 staff employed in ‘executive non-departmental public bodies’ in 2008.<sup>18</sup> The growth of quangos has been a feature of the Labour party’s term of government. It has also accentuated the trend of creating clusters of public sector employment outside of London.

The Conservative party has been critical of the growth of the ‘quango state’ and, if they come to power, it is almost certain that they will take steps to reduce the number and size of these organisations.<sup>19</sup> The Regional Development Agencies (RDAs) have been identified by the Conservatives as emblematic of the culture of wasteful bureaucracy and targeted as an unnecessary layer of government.<sup>20</sup>

The RDAs are certainly in need of reform.<sup>21</sup> However, in reality each RDA employs fewer than 600 people. If they were scrapped the total number of job cuts would be fairly small. It is also arguable that some of the critique of quangos in their wider sense is unwarranted. While their functions could be brought back inside democratically elected institutions, in many cases the procedures could not be disposed of completely. For example, the Government does need to regulate certain markets.

The RDAs do tend to be concentrated in urban locations (see Table 3). Alongside the RDAs are the Government Regional Offices and the Regional Assemblies (currently being reconfigured as Leader’s Forums), which will also be targets for retrenchment. Additionally, there several of the other quangos are also large employers in cities outside of London. These include the Arts Council England (870 staff), the Environment Agency (13,100), the Homes and Communities Agency (1,000) and the Learning and Skills Council (3,500).<sup>22</sup> Finally, the Royal Mail, a publicly owned corporation, employs over 176,000 people.<sup>23</sup>

**Table 3: Location of the Regional Development Agencies (2006-08)**

Regional Development Agencies	Group headcount	Head office
London Development Agency	573	London
One North East (RDA)	437	Newcastle
Yorkshire Forward (RDA)	435	Leeds
North West RDA	431	Warrington
SEEDA (South East RDA)	356	Guildford
South West RDA	348	Exeter
Advantage West Midlands	341	Birmingham
East Midlands RDA	261	Nottingham
East of England RDA	223	Histon, South Cambridgeshire

Source: RDA Annual Reports 2007-08, except East of England Annual Report 2006-07

17. A 2006 study suggested that, excluding health and the police force 890,000 people were employed in arms length government bodies. Norton W (2007) *The Machinery of Government, Conservative Home*; A 2007 study calculated the number of staff employed in quangos and agencies as 714,430: *Taxpayers Alliance (2007) The Unseen Government of the UK, London: Taxpayers Alliance*

18. Cabinet Office (2009) *Public bodies 2008, London: Cabinet Office*

19. Cameron D (2009) ‘People Power - Reforming Quangos’, speech made on 6 July 2009

20. *Conservatives (2009) Control Shift, London: Conservatives*

21. Marshall, A (2008) *The Future of Regional Development Agencies, London: Centre for Cities*

22. Arts Council (2007) *Annual Review 2007, Environment Agency (2007) Annual report and accounts 2006/07, London: The Stationary Office; London: Arts Council; HCA (2009) ‘facts and figures’, website accessed July 2009; Learning and Skills Council (2008) Annual Report and Accounts 2007-08, Coventry, LSC*

23. *Royal Mail Holdings plc (2009) Annual Report and Accounts 2008-09, London: Royal Mail Holdings plc*

The issue for cities is that quangos tend to be located in clusters and the ending of a quango will lead to redundancies concentrated in a particular area. Cities should not assume that high levels of quango employment will continue. Those cities that have a number of sizable institutions need to be aware of the impact that retrenchment will have on their economies.

#### 4.4 Education and health

Education and health have been the biggest beneficiaries of Labour’s spending expansion. In cities both sectors grew by around 30 percent on average over the period 1998 to 2007. Stand out city growth includes Peterborough, where employment in education grew by 151 percent over the same period, and Telford and Luton, where employment in health services increased by 98 percent and 92 percent respectively.

These policy areas are largely considered secure. The Conservatives have pledged real term increases in health spending post-2011, although education would come under greater scrutiny.<sup>24</sup> However, if the Government were required to reduce spending dramatically it is questionable whether this could be achieved without looking at these two otherwise untouchable areas.

If the education and health sector were subject to employment cuts, it is likely that the Managerial and Administrative Layer (MAL) would be most vulnerable to the initial retrenchment. In health, the size of the MAL is fairly consistent between regions (16 percent of the NHS and GP workforce).<sup>25</sup> However, the growth rate of the MAL has varied with five regions seeing the growth of the MAL exceed the growth rate of the NHS workforce as a whole (Table 4).

It is too presumptuous to discount the possibility that under a severe public spending squeeze cuts would have to be made to the education and health sectors. In this scenario it is possible that the cities that have seen the greatest growth in the MAL would be the most vulnerable to job cuts.

**Table 4: Managerial, administrative and support staff in the NHS (1998-2008)**

	NHS Support - percentage of workforce (2008)	Managerial & Administrative Layer percentage of workforce (2008)	Annual growth rate of managers & administrators (1998 - 2008)
North East	27.9%	16.8%	2.7%
<b>North West</b>	<b>28.7%</b>	<b>16.7%</b>	<b>4.4%</b>
<b>Yorkshire &amp; Humber</b>	<b>29.3%</b>	<b>17.7%</b>	<b>3.1%</b>
<b>East Midlands</b>	<b>28.0%</b>	<b>18.1%</b>	<b>2.9%</b>
West Midlands	26.5%	15.2%	1.3%
<b>East England</b>	<b>25.0%</b>	<b>13.6%</b>	<b>3.7%</b>
London	23.6%	12.6%	1.4%
South East Coast	28.4%	15.0%	1.5%
South Central	25.4%	14.0%	1.3%
<b>South West</b>	<b>26.2%</b>	<b>15.7%</b>	<b>3.8%</b>

**Definitions:**

**NHS Support:** All medical and non medical support staff (support workers and clerical and administrative functions).

**Managerial & Administrative Layer:** NHS infrastructure support staff (managers, central functions, non-medical administration, and hotel, property and estates).

**Highlighted figures indicate regions in which the growth rate of the MAL exceeded the total workforce growth rate. Regions are defined by Strategic Health Authority areas.**

Source: The NHS Information Centre, NHS staff numbers, 2009

24. The Financial Times (FT) (2009) ‘Tories want to see figures on spending’, published June 2009

25. London is able to operate with a smaller administrative and managerial function due to economies of scale and geographical size.

## 4.5 Managers, professionals, front line staff and administrators

It is expected that the largest job cuts will fall on lower-skilled elements of the public sector, which contributes a large proportion of public sector employment – managers and senior officials make up only eight percent of public sector employment nationally, while professionals contribute 24 percent. The administrative element is also the area in which outsourcing and the consolidation of services is likely to provide the biggest savings. Within this assumption nuance is required, however. All parties are likely to commit to maintaining front line delivery staff, but these are not always categorised as ‘professionals’.

The managerial, bureaucratic layer of the public sector is also vulnerable to efficiency cost drives. For example, the Conservatives have made strong policy statements on reducing Chief Executives’ pay in the public sector. This is particularly likely to be the case in the education and health sector. Yet in terms of numbers, the size of the managerial layer means it will make a smaller contribution to total job cuts.

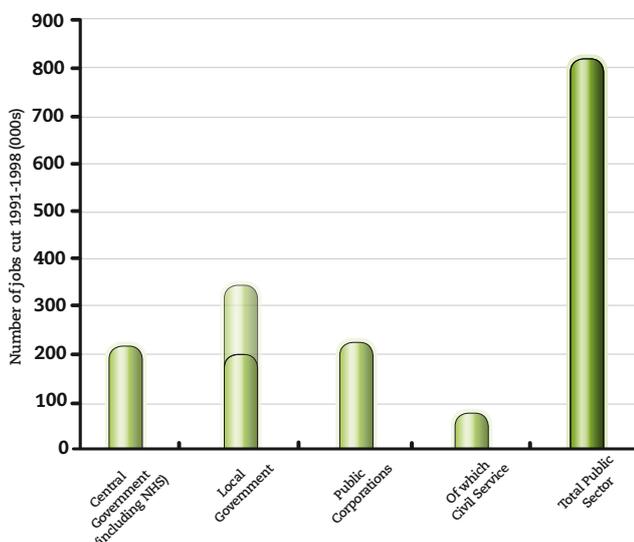
## 5. What was the previous impact of recessions on public sector employment?

### 5.1 Significant cuts were made to directly employed workers

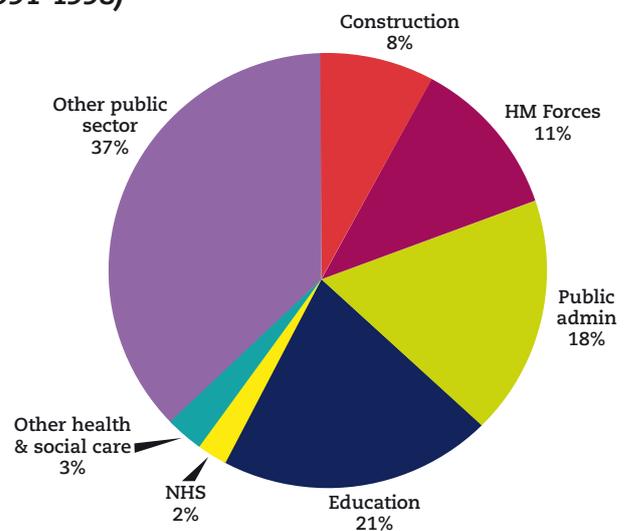
Two datasets are helpful for understanding the impact of the previous recession on public sector employment - the PSE and the workforce jobs survey (WJS). Using the narrow PSE definition we see a significant fall in public sector employment following the 1990s recession which continued until 1998. In total 819,000 jobs were cut from the public sector between 1991 and 1998, a 14 percent decline.

A large proportion of this change in employment reflects the outsourcing and reclassification of functions that took place during this period. For example, further education and sixth form colleges were transferred outside of direct public sector control in April 1993 (the highlighted section of local government job cuts in Figure 6). This is unlikely to be the only such occurrence. While it is impossible to ascertain to full scale of privatisation and reclassification, accounting for the impact of the sixth form college transfer, suggests that public sector employment shrunk by 11 percent between 1991 and 1998.

**Figure 6: Scale of job cuts by government function\* (1991-1998)**



**Figure 7: Share of job cuts by service area (1991-1998)**



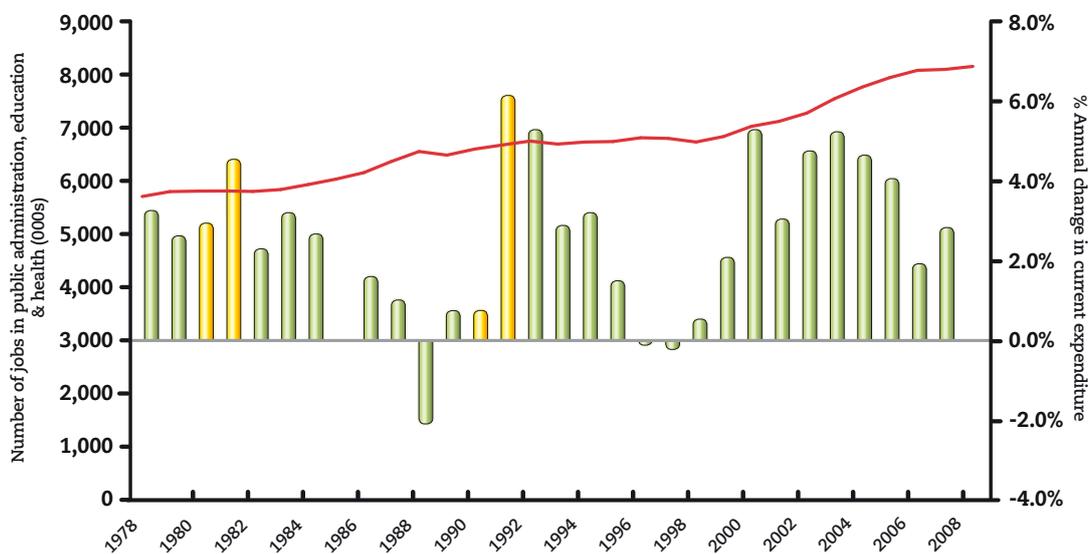
\* Shaded area indicated the affect of the sixth form transfer (April 1993). This is not excluded from the education portion of the right hand chart.  
Source: ONS, Public Sector Employment, 2009

The job cuts between 1991 and 1998 were fairly evenly spread between the areas of government. Local government saw a decline of 200,000 jobs, a seven percent decline and employment in the civil service fell by 90,000 jobs, a 15 percent decline. 'Other public sector', was clearly a target of the spending reductions, seeing a 37 percent of the share of the job cuts by service area. It is reasonable to expect that a similar approach may now be taken to NDPBs and quangos.

## 5.2 Did public sector employment continue to grow?

Other public sector definitions offer a different interpretation of the impact of the recession on public sector employment. Using the WJS and the definition public administration, education, and health<sup>26</sup> it can be seen that, while total jobs fell during the 1980s and 1990s recessions, public administration education and health jobs were unaffected – jobs creation levelled off, but no net reductions were experienced (Figure 8).

**Figure 8: Impact of recessions and current expenditure on public sector employment\* (1978-2008)**



Source: ONS, Workforce jobs survey, 2009; Thompson Datastream, 2009  
\* Periods in which the economy was in recession are highlighted

This trend partly reflects the approach that the Government took to workforce reduction, relying on privatisation and the contracting out of services. For example, privatised utility companies would not show up on the workforce jobs measure. It also suggests growth in the private provision of education and health. While public sector employment subject to direct government control was certainly reduced, the PSE dataset probably overstates the job cuts the Government was able to make between 1991 and 1998.

Importantly for the current context, following both the recession of the 1980s and the 1990s, public spending was never seriously reduced. Current expenditure was only reduced in a few years 1988-89 (2.2 percent), 1996-97 (0.2 percent) and 1997-98 (0.3 percent). This is unlikely to be the case going forward; breaking with the past public spending will need to fall.

## 5.3 Lessons from the Canadian experience

During the early 1990s Canada's public finances were in crisis. In 1993, the budget deficit reached 9.1 percent and in 1995 total debt exceeded 100 percent of GDP. Yet by 1997, the budget was in surplus and by 2007, while still high, net public debt had fallen below 70 percent.

26. The workforce jobs survey measure uses SIC 1992 definitions.

The impetus for spending cuts in Canada was external pressure applied by capital markets and currency speculation against the Canadian dollar. Three major steps were then taken by the Canadian Government.

- It committed to a firm medium-term target for the government deficit.
- It audited all public spending to 'pinpoint efficient spending'. This resulted in spending being reduced by 20 percent over three years.
- The Government secured wide scale support for the reforms.<sup>27</sup>

As a result of the fiscal tightening the public sector workforce was reduced by 15 percent and public sector wages were frozen for three years. The Canadian Government took a rigid view of which of its programmes were effective and which fell outside the responsibility of the state.<sup>28</sup>

The Canadian example offers a number of important lessons for UK cities. It is clear that the reforms were profound and deliberate, and fundamentally questioned the role of the government in the provision of certain services. Such an approach would surely see a significant reduction in the number of centrally funded schemes currently operating in UK cities. The Canadian example also points to the significant workforce reductions required to achieve meaningful public spending cuts. It is very likely that the Conservative Party will have been analyzing the success of the Canadian model.

#### **5.4 Policy ramifications of previous cuts**

It is clear that even with a mandate and explicit policy goal to make spending cuts and reduce the size of the public sector, progress is far from easy. While the number of jobs directly funded by the government fell following the 1990s recession, public sector employment measured by a wider definition merely levelled off. Public sector job reductions are also likely to lag – the lowest level of public sector employment (1998) trailed peak unemployment (1993) by five years.

In the short term, this may provide some comfort to cities heavily dependent on public sector employment. However, it also signals, that following the Canadian example, an uncompromising approach may need to be taken to achieve real reductions in spending. An across the board cut of 10 to 15 percent to public sector employment would not be unprecedented. Based on previous trends and in line with Government spending timetables it is expected that the most significant public sector job shedding will start to take place in 2011.

## **6. Methodology of the typology of vulnerability**

Based on the previous analysis of the various public sector sub-sectors, a model can be developed to highlight which cities are most at risk from public sector job cuts. Belfast was excluded due to a lack of comparable data.

The typology of vulnerability is formed from two component parts - the **index of vulnerability** and the **index of professionalism**. It is important to note that the typology seeks to reveal the negative economic effect of job losses, not the total number.

### **6.1 Index of vulnerability**

The index of vulnerability was developed using the ABI and the Mid-Year Population Estimates. It seeks to split the public sector into four components:

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27. Bouthevillain C et al. (2007) *Debt retrenchment Strategies and control of public spending*, Banque de France Bulletin Digest, No, 161

28. Halpern D (2009) 'Think tank: A model of brutality Britain can build on', *Sunday Times*, published May 2009

- Central government and arm's length bodies.
- Local authorities and local services
- Health
- Education

Three digit Standard Industrial Classification (SIC) codes were used to define the public sector. All employment in public administration is aggregated in the ABI, therefore, a population proxy is used to split central and local government.

Employment in those SIC codes considered likely to contain central government functions (administration of the state, social security activities and adult education) were compared to the population of a city versus the national average. Employment above the national per capita average (2.03 percent) was used to indicate the likely location and size of central government functions. The assumption is that local authorities employ roughly the same number of people per capita. All jobs in a city that exceeded the national average were included in section A (see Table 5).

**Table 5: Typology of vulnerability analysis**

Section	Sectors (SIC Code)	Weighting (scenarios)			
		1.	2.	3.	4.
Section A	<i>Employment above the per capita national average:</i> Administration of the State and the economic and social policy of the community (SIC 75.1), Compulsory social security activities (SIC 75.3), Adult and other education (SIC 80.4).	0.35	0.12	0.15	0.002
Section B	<i>Remainder of Section A</i> Provision of services to the community as a whole (SIC 75.2), Social work activities (SIC 85.3), Sewage and refuse disposal, sanitation and similar activities (SIC 90.0), Library, archives, museums and other cultural activities (SIC 95.2)	0.15	0.12	0.15	0.002
Section C	Primary education (SIC 80.1), Secondary Education (SIC 80.2)	0.05	0.12	0.15	0.239
Section D	Human health activities (SIC 85.1)	0.05	0.12	0.00	0.258

**Scenario key**

1. Core scenario
2. Broad cuts
3. Not health
4. Reversing growth

The remainder of this calculation was then added to the other local government services (including social services, classified under health in the ABI) and other selected services, such as museums and leisure activities. This employment was placed in section B. Next, primary education and secondary education were placed in section C and health activities was placed in section D. Veterinary activities and higher education were excluded.

The three sections were given weightings (outlined in Table 5) based upon their proposed vulnerability. This number was then summed to provide the number of vulnerable jobs in a city. This allows vulnerable jobs as a proportion of total employment to be calculated. Finally, this figure was then indexed to the national average (Great Britain: 100) to provide an assessment of relative vulnerability.

## 6.2 Index of professionalism

This index of vulnerability is calibrated against the index of professionalism, a measure designed to delineate cities with higher value public sector activity. This measure uses the proportion of public sector workers in the top two Standard Occupational Classification groups - Managers and Senior Officials (T10:8) and Professional Occupations (T10:18).<sup>29</sup> The percentage of public sector workers in these groups in a city is indexed against the national average (Great Britain: 100).

## 6.3 Scenarios for public spending cuts

To supplement the core scenario in the main report, three other public spending cut profiles have been proposed. These are:

1. **Broad based cuts** - cuts evenly spread across the whole of the public sector.
2. **Health spared** - evenly spread cuts, but with no cuts to health.
3. **Education and health** – major cuts to education and health, reversing the pattern of employment growth over the past decade.

This third scenario is hypothetical rather than a probable outcome. Figure 9 outlines those cities that are **highly vulnerable** (lower right hand quadrant of typology) under the various profiles of spending cuts.

**Figure 9: Scenarios for city vulnerability (highly vulnerable)\***

1. Broad based cuts		2. Health spared	
Hastings	Birkenhead	Barnsley	Middlesbrough
Barnsley	Ipswich	Hastings	Ipswich
Swansea	Liverpool	Swansea	Birkenhead
Gloucester	Middlesbrough	Gloucester	Sunderland
Plymouth	Newport	Plymouth	Liverpool
3. Education and health cuts			
Hastings	Plymouth		
Gloucester	Doncaster		
Barnsley	Swansea		
Newport	Derby		
Birkenhead	Ipswich		

\*Cities are ranked in order of their relative vulnerability.

Seven cities feature in all three scenarios, albeit to slightly different degrees of vulnerability. These cities' economies are very dependent on the public sector and have a small private sector. The analysis reveals that while the profile of spending cuts will affect the relative vulnerability of different cities, a similar collection of places could be negatively impacted regardless of the exact contours that public spending cuts follow.

29. Dataset taken from Nomis, Annual Population Survey – workplace analysis

There are some interesting variations.

- Under a 'broad based' scenario Liverpool looks particularly vulnerable to job cuts.
- Whereas, if health were to be excluded Sunderland moves up the rankings. Middlesbrough appears to have a fairly small health sector, with the city looking more vulnerable under the 'health spared' scenario.
- If employment growth were to be reversed, with almost all the savings found from education and health, a quite different pattern appears. Newport, Doncaster and Derby look particularly sensitive under this scenario.
- Newcastle does not appear in any of the three scenarios, indicating its sensitivity to central government and quango job cuts.

## 7. How many jobs will be cut?

The headline figure of 290,000 job losses is assembled bottom up from a number of sources reflecting the emerging consensus on likely public sector job cuts and the scale of required fiscal tightening. The figure includes cuts to local government, public sector bodies and the civil service.

Local government employs 2.9 million people in the UK, of which 1.5 million work in education and the police force. A recent survey suggested that 56 percent of local authority Chief Executives expected their workforce numbers to be at least 10 percent smaller in five years time.<sup>30</sup> A 10 percent cut of the remaining 1.2 million local authority staff would equate to 120,600 local authority staff by headcount.

**Table 6: Centre for Cities analysis of the potential scale of public sector job cuts\* (2009–14)**

Local authority staff	Headcount	FTE
UK Local government (Q1 2009)	2,907,000	2,166,000
Education (Q1 2009)	(1,419,000)	(1,003,000)
Police (Q1 2009)	(290,000)	(279,000)
Local authorities (Q1 2009)	1,198,000	884,000
<b>10 percent</b>	<b>119,800</b>	<b>88,400</b>
<b>'Other public sector' service area (Q3 2008**)</b>	<b>735,000</b>	<b>615,000</b>
50% quangos	367,500	307,500
<b>11 percent-24 percent</b>	<b>40,425-88,200</b>	<b>33,825-73,800</b>
Civil Service (Q1 2009)	526,000	490,000
<b>15 percent</b>	<b>78,900</b>	<b>73,500</b>
Total reduction (lower bound)	239,125	195,725
Total reduction (upper bound)	286,900	235,700

Source: ONS, Public Sector Employment – Statistical Bulletin, 2009

\*These figures are a thought exercise and do not represent an accurate forecast.

\*\* Q3 2008 has been used to exclude the addition of the nationalised banks.

Employment in NDPBs and quangos is difficult to quantify. Employment in 'other public sector' functions is currently 735,000, of which approximately half relates to public sector bodies, such as Royal Mail, British Nuclear Fuels, transport bodies and housing associations.<sup>31</sup> The other half relates to local authority functions such as leisure centres, catering and industrial cleaning. This produces an estimate for employment in public sector bodies of 367,000. This number is likely to significantly underestimate the number of NDPB, quango and government agency employees, which have been estimated to exceed 700,000.

30. LGC (2009) 'One in 10 jobs is at risk', published June 2009

A recent Policy Exchange report suggested that to cut £75 billion from government spending (their middle projection) without touching health and education, a 24 percent cut would be required by all departments not associated with the expenditure related to the recession, e.g. the DWP increased spending on benefits.<sup>32</sup>

Given the stated commitment to frontline services it seems reasonable to expect that job cuts in NDPBs and quangos could be at the top end of this scale. This would mirror the experience of the previous recession in which 'other public sector' industries contributed 37 percent of the total job cuts. If a 24 percent cut was applied directly to the workforce, i.e. all spending reductions were found from employees, it would imply that 88,200 jobs would be cut. Given the contestability of such assumptions it is sensible to also introduce a lower bound. Eleven percent is the adjusted percentage of all public sector job cuts between 1991 and 1998. This produces an estimate for NDPBs and quangos in the range of between 40,425 and 88,200.

Finally, if the 15 percent fall in employment in the civil service experienced between 1991 and 1998 is repeated it would result in a reduction of 78,900 jobs. This suggests combined public sector job losses of between 240,000 and 290,000.

## 8. Impact on city economies

The impact of a smaller public sector may not be completely negative for cities in the longer term. The appropriate size of the state and its impact on economic growth, across a variety of measurements, has long been a point of contention. A series of studies have sought to assess the local crowding out effect of public sector employment, by which the size of the private sector is impaired by a larger public sector.

Crowding out at a city level predominantly occurs through the wage mechanism whereby the public sector bids up local wages thus reducing the number of employees in the private sector. Therefore, some of the additional jobs created in the public sector are offset by a displacement effect. Additionally, as the private sector generally has a higher rate of growth than that of the public sector, a city's longer term growth prospects may be impaired. At a national level crowding out also occurs through the impact of a larger government spend on increased interest rates and subsequent reduced levels of private investment.

Research in this area has been inconclusive, both supporting and rejecting the hypothesis, and a full analysis is beyond the scope of this report.<sup>33</sup> Invariably, it seems likely that the true impact is dependent upon place and circumstance. In cities where the public sector operates in a separate labour market and there is limited private sector activity the displacement effect is minimal. In other cities, particularly where the labour market is already tight, a large public sector may have a more negative effect.

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31. Office of National Statistics (2005) *Public Sector Employment Trends 2005*, Newport: ONS

32. Lilico A, O'Brien N & Atashzai A (2009) *Controlling public spending: the scale of the challenge*, London: Policy Exchange

33. For examples, in support see: Gwartney J Lawson R & Holcombe R (1998) *The Size and Functions of Government and Economic Growth*, Washington: Joint Economic Committee, and Afonso, A. & Furceri D. (2008), *Government size, composition, volatility, and economic growth*, European Central Bank working paper 849, in rejection see: Cumbers A & Birch K (2006) *Public sector spending and regional economic development: crowding out or adding value*, Glasgow: Centre for Policy for Regions, Mrinska O. (2007) *The Public Sector in the North: Driver or Intruder*, Gateshead: Ippr North, and Yuk W (2005) *Government Size and Economic Growth: Time-series evidence for the United Kingdom 1830-1993*, University of Victoria, *Econometrics Working Paper EWP0501*