



Public sector cities: Trouble ahead

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Executive Summary

The public sector has been viewed as a cushion to the impact of the recession by many city leaders, but as public spending falls so too will public sector employment. The public sector is a big employer in UK cities, on average providing more than one in four jobs. Nationally, over seven million people are employed in public sector activities.

Over the past decade, the public sector has been one of the key drivers of growth in the UK. Over two thirds of the 1.2 million net additional jobs created in UK cities between 1998 and 2007 were in public administration, education and health.

The recession has resulted in a permanent hit of £90 billion a year to the Government's income. The Government deficit could now reach 14 percent of GDP in 2009-10. Spending cuts look to be inevitable and the public sector will need to shrink. Local authorities and many central departments – all major employers in UK cities - may face annual spending cuts that exceed five percent in real terms during the period 2011-14.

Those cities overly dependent on public sector employment will be hit hard. While flexible working and wage freezes will provide some of the savings required, job losses are inevitable. Public sector employment could shrink by 240,000 to 290,000 jobs between 2009 and 2014.

This report develops a new measure of city vulnerability to public sector job losses. Cities, such as Swansea, Hastings, Ipswich, Newcastle and Barnsley, which have experienced large-scale public sector growth over the last decade, will need to prepare for the consequences of significant cut backs in the size of their public sector workforce.



“All cities need to radically review the role of the public sector in their economies”

Policy implications

Cities

- All cities need to radically review the role of the public sector in their economies. While the public sector will remain a major employer in cities, it will not be a driver of employment growth over the next decade.
- Cities with a large, vulnerable public sector, such as Swansea, Ipswich and Newcastle, need to understand the impact that reduced public sector employment will have on their economies and prepare for the consequences. One implication will be the increased importance of facilitating low- and mid-skilled employment growth in the private sector.
- Cities should not look to Government relocations as a source of new jobs in the recovery.
- Local authorities should consider whether staff with specialist knowledge made redundant in other parts of the public sector can be employed to fill gaps in a local authority’s skills set.

Central government

- Until the unemployment rate begins to fall, and job creation exceeds job destruction, the next Government should phase spending cuts that substantially reduce public sector employment, where possible.
- The public sector should consider whether alternatives to job cuts, such as pay freezes and flexible working, could be used as short-term measures to reduce the wage bill while minimising the impact that cuts to public spending have on unemployment.
- The approach to central government relocations needs to be fundamentally revised. While relocations have attempted to lower costs and promote growth outside of London, they have encouraged some cities to become too reliant on public sector employment. This policy has also resulted in cities investing an undue amount of time and resource into competing for a small number of relocating public sector jobs. Promoting private sector growth would be a more sustainable option.



Introduction

A large public sector has frequently been referred to as a cushion or stabiliser for local economies during the recession.¹ Similarly, although the potential scale of public spending cuts has begun to dominate the national political debate, the subsequent impact on public sector employment has largely been ignored.

The public sector, taken in its entirety, is a major employer in UK cities. Following a decade of remarkable public spending growth, the vitality of many city economies is now heavily dependent on continued high levels of government expenditure.

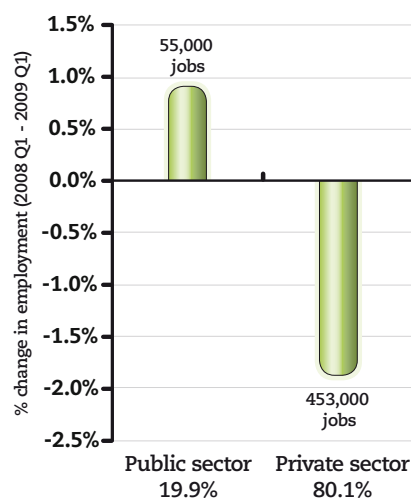
This report, and its supporting paper, seek to help cities understand the likely impact of spending cuts. In light of the dire state of the public finances all cities need to radically change their view of the public sector's employment role. The period of growth has now finished and it is likely that large parts of the local and regional public sector will be cut back as the next Government attempts to balance its books.

This report outlines how public sector spending and employment have grown, which cities could be most vulnerable to public sector job cuts, the potential impact on their economies and how, in a limited way, local and central government should respond. A subsequent report to be released in the autumn, will address how local authorities can deliver the necessary spending cuts required to effectively reduce their budgets.

Current impact of the recession

So far, public sector employment has been more resilient than the private sector in the recession. Between the first quarter 2008 (peak private sector employment) and the first quarter 2009, public sector employment grew by 1.0 percent. In comparison, employment in the private sector fell by 1.9 percent.²

Figure 1: Impact of the recession on the public & private sectors (2008-09)



Source: ONS, Public Sector Employment, 2009

1. Brinkley I et al (2008) *Hard Labour: Jobs, unemployment and the recession*, London: The Work Foundation

2. Office for National Statistics (ONS) (2009) *Public Sector Employment – Statistical Bulletin*. Our figures have been adjusted to remove the impact of the nationalisation of the banks.

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Public sector employment tends to be counter-cyclical.³ In an economic environment in which the Government is using its fiscal position to increase aggregate demand, such as the VAT cut and bringing forward capital expenditure, aggressive cutting of staff is unlikely to occur.

However, there are already signs that the circumstances may be changing. In May, the employment intentions of public sector organisations measured in the Chartered Institute of Personnel and Development/KPMG quarterly labour market outlook entered negative territory (-three),⁴ implying that a net reduction in employment is possible.

Additionally, the Government believes that the recession has resulted in a permanent loss to the economy of five percent of output. The economy has shrunk and this will not be corrected by above trend growth during the recovery. If the public sector is to remain a constant size relative to the economy as a whole it will also have to adjust. The recession means that at a national level the previous size of the public sector no longer remains viable.

Massive growth in public sector employment

The past decade has seen dramatic growth in the public sector; more people than ever now work in government-financed employment. In 2007 over seven million people were employed in public sector related activities. The figure falls slightly to six million people, for those directly employed by the government.⁵

Table 1: Comparison of ABI & PSE definition of public sector employment

	Annual Business Inquiry (public administration, education & health)	Public Sector Employment
Total employment (2007)	7.16 million	5.77 million
Public sector as a proportion of total employment (2007)	26.9%	19.7%
Average annual growth rate (1998-2007)	2.5%	1.2%

Source: Nomis, Annual Business Inquiry, 2009; ONS, Public Sector Employment, 2009

Between 1998-99 and 2008-09 the share of public sector employment and spending expanded as a percentage of the economy as a whole.⁶ This expansion was driven by the Labour Government's desire to improve public services, such as the policy choice to increase the share of health spending to the European average. It was conceived that this could be achieved principally through increasing the amount spent on key departments.

3. Gomes P (2009) *Labour market flows: facts from the United Kingdom*, Bank of England Working Paper No. 367

4. Financial Times (2009) 'Public sector workers start to feel the pain', published 11 May 2009

5. Two definitions are relevant for analysis of public sector employment in the UK, the Annual Business Inquiry (ABI) broad industrial group 'public administration, education and health' and the Office of National Statistics' (ONS) public sector employment (PSE) dataset. The two definitions allow for different types of analysis to be undertaken. The PSE dataset excludes GPs, higher education and contracted workers. For this and other reasons it is smaller than the ABI definition. For further information see supporting paper, section 2.1

6. Expenditure as a percentage of GDP increased by 5.9 percentage points, while narrow public sector employment (PSE) as a percentage of total employment increased by 0.2 percentage points.

“The recession means that at a national level the previous size of the public sector no longer remains viable”

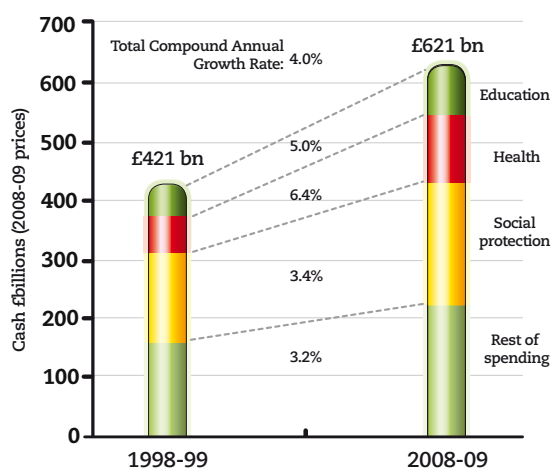


“Much of the employment growth in UK cities can be attributed to the growth of the public sector”

Much of the expansion of public spending has been in education and health. The average growth rate of Total Managed Expenditure (TME) between 1998-99 and 2008-09 was 4.0 percent (Figure 2). During this period education spending grew at an annual average rate of 5.0 percent, while health spending grew at 6.4 percent.

As a proportion of total government spend, education and health increased from 26.3 percent in 1998-99 to 31.1 percent in 2008-09. Concurrently, employment in education grew at an annual rate of 2.1 percent while NHS employment grew at 2.4 percent, using the narrow PSE definition.

Figure 2: Growth in public spending (1998-2009)



Source: Public Expenditure Statistical Analyses 2009; Trends in public sector expenditure, 2009

Increased public spending grows city economies

Much of the employment growth in UK cities can be attributed to the growth of the public sector. Using the wider ABI definition, 840,300 (69 percent) of the 1.2 million net additional jobs created in UK cities between 1998 and 2007 were in the public sector.⁷ Excluding the manufacturing sector, which has declined over this period, two million net additional jobs were created between 1998 and 2007. Thus the public sector contribution was 43 percent of the additional jobs in UK cities.

In some cities the public sector grew while the private sector as a whole declined. In Birmingham the number of private sector jobs fell by 55,500 while the number of public sector jobs increased by 80,900. In Nottingham the private sector declined by 3,600 jobs while the public sector grew by 7,000 jobs. Even in the cities that have seen private sector growth, the public sector has been an important source of new jobs. In Manchester public sector jobs accounted for 59 percent of the net additional jobs. In Leeds the figure was 55 percent.

As would be expected, the growth of the public sector has had a disproportionate impact on those cities that have had weaker private sector growth. City leaders have welcomed public sector jobs both as a means of bolstering their economies and, more recently, as a stabiliser during the recession.

7. All cities refer to the Primary Urban Area (PUA) definition. A discontinuity in the ABI data set means that caution must be used when interpreting growth spanning the years 2005 and 2006.

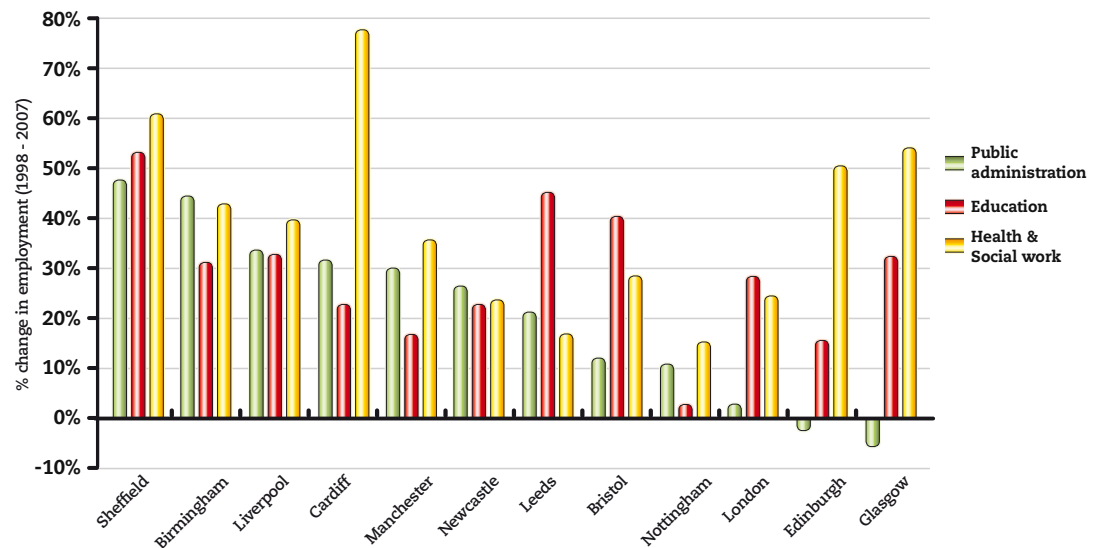


“Whichever party forms the next government will need to re-evaluate public service provision and reduce government spending”

The three cities that saw the biggest increase in public sector employment over the period were Sheffield (55 percent), Warrington (54 percent) and Luton (50 percent). Sheffield has developed a civil service cluster, with representation from the Department for Children, Schools and Families, the Department of Work and Pensions, HM Revenue and Customs and the Home Office. Luton has a large Foundation Trust Hospital. In both Luton and Warrington’s cases strong growth is partly explained by the small initial size of the public sector.

As highlighted above, the vast majority of the public sector growth in UK cities has been in health and education (89 percent). Cardiff, a particularly good example, has seen its health sector expand by 77 percent (Figure 3). Sheffield, Glasgow and Edinburgh’s health sectors also grew by more than 50 percent, while Leeds (45 percent) and Bristol (40 percent) have seen strong expansion in the education sector.

Figure 3: Growth of public sector employment by sub-sector in selected cities (1998-2007)



Source: Nomis, Annual Business Inquiry, 2009

In addition to growth in health and education, individual cities have benefited from both the relocation of central department offices and, more importantly, the growth of other governmental functions, such as Regional Development Agencies (RDAs) and other quangos. Of the major cities, Sheffield, Birmingham, Liverpool and Cardiff all saw their public administration sub-sector grow by more than 30 percent, between 1998 and 2007.⁸ In Cardiff’s case public administration growth is related to the Welsh Assembly Government.

Public spending is set to tighten

Whichever party forms the next government will 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.

8. A number of cities had experienced falls in public administration employment prior to 1998. It is particularly important to note Sheffield (-28 percent), Cardiff (-20 percent) and Manchester (-16 percent) between 1995 and 1998.



“With 40 percent of their expenditure on employees it will be impossible to meet these new cost savings without reducing the size of local authority workforces”

The Institute for Fiscal Studies (IFS) has suggested that all central departments will see real terms spending cuts of 2.3 percent per annum in the next spending review (2011-14). If health, education and international development were to be spared it would imply a 4.8 percent annual cut in spending per year for other departments.⁹ Some commentators suggest that the cuts may be even higher if, for example, welfare costs and the interest paid on government debt were to rise above current projections.

Local government will be hit hard by these spending cuts, given that they receive the majority of their funding in the form of central government grants. The spending reductions required will be considerably larger than the previous programmes of efficiency savings. With 40 percent of their expenditure on employees, much of the remaining expenditure fixed, and the demand for services rising, it will be impossible to meet these new cost savings without reducing the size of local authority workforces.

Box 1: Proposed cuts - the political debate

A vigorous debate has broken out between the three main parties about the shape of future spending cuts. This issue is being used to create a dividing line between the parties in the run up to a general election.

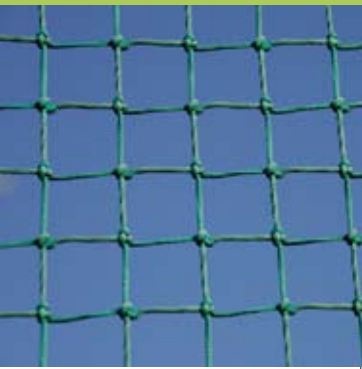
Gordon Brown has labelled the Conservatives as ideologically committed to cuts. Labour laid out its medium-term spending plans in the Budget, but without much detail. Nominal spending (in pure money terms) will continue to grow, but in real terms total spending will fall by 0.1 percent per year between 2011 and 2014. Capital expenditure is expected to fall significantly. A debate exists within the party as to the severity of the cuts required and how this affects its political message. The Government's formal spending review has been deferred until after the election, although Chancellor Alistair Darling will no doubt announce some aspects in the Pre-Budget Report.

The Conservatives have been more forthright. George Osborne has declared that politicians have been too shy to use the 'cut' word, and has floated the idea of an 'emergency Budget', to be held within days of entering government. The Conservatives claim that protecting health and international development would require cuts of 10 percent elsewhere. An earlier commitment to protect the education budget has been dropped, which may mean cuts to Sure Start, for example. Quangos have also been highlighted as a target area in a recent speech by David Cameron, although the actual savings that cutting quangos would produce is unclear.

The Liberal Democrats have claimed that neither party is being clear about the spending cuts required and suggested the need for tough choices on big programmes, such as Trident and public sector pay and pensions.

None of the parties has yet provided an indication of the departmental profile of future spending plans. City leaders would benefit from an honest and transparent debate on public spending, which would allow them to adjust their strategies accordingly. The timing of the election means detailed spending announcements before then are unlikely. However, all parties should set out a clearer outline of their likely approach.

9. See supporting paper, section 3.1



The rapid expansion of the public sector may mean that deep cuts are easier to achieve than is currently expected, and that spending cuts will not necessarily result in a decline in service quality.¹⁰ A 15 percent reduction in public spending would only bring total public expenditure back to 2003-04 levels.

Tighter spending will reduce public sector employment

The requirement to rein back public spending will impact on all cities, but the effect will be particularly acute in those cities in which the public sector makes a big contribution to total employment. It is not necessarily the case that all reductions in public spending will inevitably lead to job cuts. In some cases the wage bill could be controlled without resorting to redundancies. The Government, working with the unions, may be able to secure additional workforce flexibility through concessions on pay and hours.

Forty-five of the 64 UK cities have a greater percentage of employment in the public sector than the national average (26.9 percent). This pattern is not unexpected given the role of cities as administrative centres and the greater service requirements of densely populated areas. Cities may have a large proportion of employment in the public sector for a number of reasons, such as:

- Large universities or other higher education institutions (Oxford and Cambridge).
- A central department office or quango is located in the city (Swansea and Newcastle).
- The size of the local authority is above average (Leeds and Birmingham).¹¹
- A small private sector for its size (Barnsley, Plymouth and Liverpool).

The two cities that have the largest proportion of employment in the public sector are Oxford and Cambridge (Table 2). The ranking of these cities is clearly influenced by the impact that the universities and associated education sector have on their respective local economies. These universities have a diverse set of funding streams, so are less likely to be at the forefront of the effect of tighter public spending.

Hastings (42.2 percent), Belfast (40.7 percent), Swansea (38.5 percent), Dundee (37.3) and Liverpool (36.0 percent), on the other hand, have large and potentially more vulnerable public sectors.

Newcastle and Swansea have benefited from the growth of central government functions and the relocation of civil servants out of London. The head office of the Driver and Vehicle Licensing Agency (DVLA) is in Swansea, employing almost 5,000 people.¹² Newcastle is the location of the Inland Revenue's National Insurance Contributions Office and the head office of One North East, the RDA. The city has benefited from the transfer of 668 posts, under the Government's most recent relocation programme.¹³

10. *Bundred S in The Observer (2009) 'We've had years of growth - so let's not be afraid of cuts', published July 2009*

11. *See supporting paper section 4.1*

12. *ONS (2008) Civil Service employment; regional (GOR) distribution by government department*

13. *See supporting paper section 4.2*

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Table 2: Cities with a large proportion of public sector employment (2007)

	City	% employment in public administration, education and health (2007)	Cities Outlook 2009 Economic Prosperity ranking (best 1 / 64 worst)
1	Oxford	46.6	10
2	Cambridge	43.8	5
3	Hastings	42.2	60
4	Belfast	40.7	25
5	Swansea	38.5	40
6	Dundee	37.3	54
7	Liverpool	36.0	48
8	Plymouth	35.7	58
9	Gloucester	35.1	41
10	Barnsley	34.9	55
11	Worthing	34.5	20
12	Ipswich	32.8	42
13	Newcastle	32.2	45
14	Birkenhead	32.2	27
15	Glasgow	31.9	28
16	Newport	31.8	43
17	Middlesbrough	31.7	53
18	Doncaster	31.7	50
19	Leicester	31.5	51
20	Sheffield	31.4	34
	Great Britain	26.9	-

Source: Nomis, Annual Business Inquiry, 2009; Centre for Cities, Cities Outlook 2009; Labour Force Survey: 2007 Local Area Database.

Barnsley, Liverpool and Plymouth are all cities in which the high proportion of public sector employment is principally a consequence of there being limited private sector activity, though Liverpool does also have three universities and Plymouth has a sizable naval defence sector. In 2007, Barnsley had 274 VAT registered businesses per 10,000 adults, while Liverpool had 241 and Plymouth had 233. This compares with the national average of 415.

Many of the cities that have very large public sectors perform poorly on measures which assess the strength of their economy. Of the 20 cities that have the largest public sectors, 12 rank outside of the top 40 cities by economic performance.

A typology of vulnerability

The various parts of the public sector, and thus different cities, are not equally exposed to the impact of potential public sector job losses. Cities have different combinations of public sector employment both by function and by professional status. Size alone is not necessarily the best indicator of a city's vulnerability.

“Of the 20 cities that have the largest public sectors, 12 rank outside of the top 40 cities by economic performance”



“We assume that cities with a high proportion of non-expert, non-professional public sector jobs are more susceptible to job cut”

City vulnerability will depend upon the profile of spending cuts undertaken, but we assume that cities with a high proportion of non-expert, non-professional public sector jobs (excluding managers and professionals) are more susceptible to job cuts, than front line services or high-level managers (Box 2).¹⁴ Having made this assumption, it is important to recognise that reducing the size of the managerial layer could be a target for Conservative public sector reform.

Box 2: How to pinpoint vulnerable cities

- Segment the areas of public sector employment by central government, local government, health and education.
- Assign sub-sector weightings for the proposed profiles of spending cuts, to produce a number of vulnerable jobs.
- Compare the proportion of vulnerable jobs to total employment in a city and index to Great Britain to create an index of vulnerability.
- Calibrate this against the proportion of jobs in the public sector in the top two occupational classifications, shown as an Index of public sector expertise.
- Cities that rank highly on vulnerability and low on expertise are more susceptible to job cuts.

The core scenario assumes that governments tend to commit to the preservation of frontline staff as an assurance to voters that they will maintain public service quality. Therefore, those jobs that are most at risk from reduction are likely to be those removed from direct contact with the public.

The basic premise is that auxiliary central government functions and quangos are weighted as most at risk from cuts, followed by local government and then education and health. Quangos are rated as approximately twice as vulnerable to restructuring as local government jobs, which are in turn three times more vulnerable than jobs in education and health.

Swansea, Hastings, Ipswich, Barnsley, Newcastle, Liverpool, Blackpool and Newport are all identified as cities that are **highly vulnerable** and particularly at risk (Figure 4). A large proportion of their economy is reliant on ‘at risk’ public sector activities and the functions are likely to be of a lower value. Many of the cities highlighted as vulnerable by the typology are similar to those that have previously been shown to have a very large public sector.

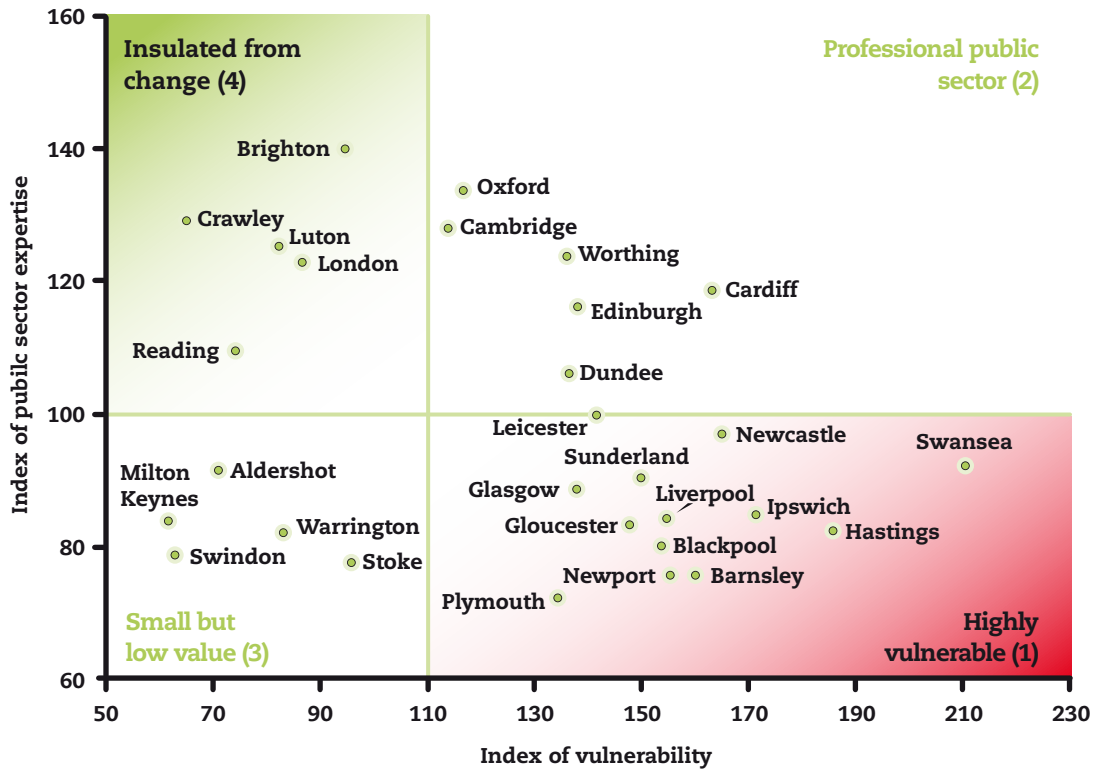
The typology distinguishes a number of **professional public sector cities**, such as Cardiff, Worthing, Edinburgh, Oxford, Dundee and Cambridge. These cities have large public sectors but are less likely to be at the forefront of public spending cuts. In these cities the public sector is more likely to mean a large university or, in the case of Cardiff and Edinburgh, devolved national legislatures.

14. A full discussion of the relative exposure of the sub-sectors of government can be found in the supporting paper, section 4.



“Deeper spending cuts and a more radical reorganisation of the public sector could leave them exposed”

Figure 4: Typology of city vulnerability



*Vulnerability of types is indicated (1: most vulnerable, 4: least vulnerable); centrally distributed cities have been suppressed for presentational purposes.
Source: Nomis, Annual Business Inquiry, 2009; Nomis, Annual Population Survey, 2009

While under current spending projections these cities are likely to be protected from major job losses; deeper spending cuts and a more radical reorganisation of the public sector could leave them exposed. This is only likely to occur if the Government were to be forced into action by a crisis, such as a decline in the Government’s ability to issue debt or a collapse in the value of Sterling.

While no city is likely to emerge completely unscathed, the typology identifies those cities least likely to be affected by public spending changes - Crawley, Luton, London, Reading and Brighton. These cities can be termed **insulated from change**. London’s presence on this list is surprising, given the machinery of government that exists in the Capital. However, much of this employment is unlikely to be the target for spending cuts and given the size of the private sector as a proportion of the economy, the public sector is a relatively smaller source of jobs. The public sector contributes 22.2 percent of employment in London, well below the national average.

It is also possible to consider different profiles of spending cuts.¹⁵ Analysis reveals that while the profile of spending cuts will affect which cities are most vulnerable, a similar collection of places will be negatively impacted regardless of the exact contours that public spending cuts follow. This is a result of the relatively small size of the private sector in these cities.

15. See supporting paper, section 6.3



“The impact on city economies of job shedding in the public sector is as obvious as it will be painful”

Figure 5: Percentage of employment in public administration, education & health in highly vulnerable cities (2007)



Source: Nomis, Annual Business Inquiry, 2009; Nomis, Annual Population Survey, 2009

Impact on city economies

The impact on city economies of job shedding in the public sector is as obvious as it will be painful. In the short-term, it will result in lower levels of employment, increased levels of unemployment and reduced prosperity. The impact is likely to be more severe outside of the Greater South East (GSE).

Outside of the GSE the wage differential between the average public sector wage and the average private sector wage is much smaller. In Wales the average public sector wage exceeds the average private sector wage. This pattern is accentuated for senior and professional public sector occupations.¹⁶

16. Male graduates earn more in the public sector than the private sector in the South West, the West Midlands, Yorkshire and the Humber, Northern Ireland, the North East and Wales. See Bozio A & Johnson P (2008) 'Public sector pay and pensions' in IFS Green Book 2008, London: IFS



“Cities with large vulnerable public sectors will see a secondary effect in their private sector following public sector job losses”

The reduction in the number of public sector jobs will reduce the level of consumption in a city through lower levels of employee and organisational expenditure. Importantly, in cities in which the average public sector wage is closer to the private sector average - such as Swansea, Cardiff, Newcastle and Middlesbrough - the impact on consumption will be greater as a result of the loss of public servants' stronger purchasing power. Reduction in public sector employment will have a greater impact on consumption outside of the GSE.

For every 100 public sector jobs created in a city, it is estimated an additional 30 to 50 private sector jobs may be created through the public sector's spending power.¹⁷ It is reasonable to expect that the reverse outcome may be observed when the public sector shrinks. Cities with large vulnerable public sectors will see a secondary effect in their private sector following public sector job losses. Retail and business service could be affected significantly.

There could be a silver lining to public sector job cuts. The private sector has a greater level of dynamic efficiency and in the long-term grows at a faster rate than the public sector. In some cities, particularly those with tighter labour markets, a large public sector may have been 'crowding out' private sector growth. Thus a smaller public sector may re-enable private sector growth in these economies.¹⁸ Obviously, a larger private sector will increase a city's exposure to employment swings associated with the business cycle.

How many jobs will be cut?

The size of prospective jobs cuts in the public sector is clearly unknown. However, by drawing on commentators, using a range of data sources and applying the assumptions made about the relative exposure of the public sector sub-sectors,¹⁹ we are able to make an informed projection.

Analysis of various sources suggests that projected job losses in the range of 240,000 - 290,000 over this and the next spending review period (2011-14) seem plausible.²⁰ Such cuts are in line with other commentators' predictions that suggest public sector job losses could reach 350,000.²¹ It is also within historical precedent. Between 1991 and 1998 public sector employment fell by 11 percent.²² This also suggests that public sector job losses may continue until 2016.

If this number of job losses were to be allocated to the 63 UK cities based on the core scenario from the typology developed above, it would equate to 2,300 jobs in Swansea (2.2 percent of total employment), 600 jobs in Hastings (2.0 percent) and 6,600 jobs in Newcastle (1.8 percent). Job losses would be greater if the secondary impact on the private sector is incorporated (Table 3).

17. An implied multiplier of between 1.3 and 1.5, see Experian Business Strategies (2004) *The Impact of Relocation: A Report for the Independent Review of Public Sector Relocation*, London: Experian

18. Substantial debate exist as to the impact of crowding out, see supporting paper, section 8.0

19. See supporting paper, section 4.0

20. For a full discussion of the jobs cut methodology, see supporting paper, section 7.0

21. Philpott J quoted in BBC (2009) 'Huge job cuts for public sector', published June 2009

22. See supporting paper, section 5.2



Table 3: Projected job losses in five vulnerable cities (2009-14)

City	Index of vulnerability (core scenario)	Indicative public sector job losses	Percentage of total employment	Public sector losses and additional private sector effect (multiplier of 1.3)
Swansea	208	2,300	2.2	3,000
Hastings	184	600	2.0	700
Ipswich	170	1,200	1.8	1,600
Newcastle	163	6,600	1.8	8,600
Barnsley	158	1,200	1.7	1,600

Source: Centre for Cities analysis

These five vulnerable cities vary in their scope for private sector growth to fill the space left by the retrenchment of public sector employment. Ipswich's number of businesses per capita is higher than the other four cities (324 per 10,000 adults), but it remains substantially below the national average of 415.

What should cities do?

Cities are limited in the actions they can take to prevent and deal with significant redundancies in the public sector. In many cases cuts to staff will be out of a local authority's control, for example in central department offices, quangos and in the health sector.

The pressure on local authorities' own budgets will be considerable. While there may be mechanisms to reduce the public sector wage bill without resorting to redundancies, in the longer-term, it would be unproductive for local government to attempt to support levels of public sector employment as an independent policy goal. Ultimately, a local authority's role is to deliver services. Maintaining service quality will be their first priority and they will need to find new efficiencies to deliver the same services with less, even if this means with fewer staff.

End of the public sector growth model?

One immediate consequence of the new fiscal environment is that any city that has been pursuing what could be called a 'public sector growth model', either explicitly or implicitly, should cease to consider this a practical policy approach. This includes both expectations of substantial growth in the existing health and education sectors and the capture of new public sector functions.

Sheffield is one city that may have been overly optimistic in its vision for public sector employment growth. Sheffield's Masterplan (2007) states that one of the ways that it aims to grow the city's economy is by encouraging:

*"Further development of the city as a location for national and regional public sector employment, including the relocation of Government employment from London."*²³

23. Creative Sheffield (2007) *The Sheffield Economic Masterplan: Transforming the Economy in One Generation*, Sheffield: Creative Sheffield

“Any city that has been pursuing what could be called a ‘public sector growth model’, either explicitly or implicitly, should cease to consider this a practical policy approach”



Similarly, Plymouth's economic strategy (2006) identifies public sector relocations as a 'key target sector' and the Tyne and Wear Development Company, which covers the Newcastle city-region, has a section of its website dedicated to public sector relocations.²⁴

These strategies, which are by no means unusual, now look less relevant in the context of the forthcoming spending cuts and should be revised. While the public sector will continue to be a major employer in cities it cannot continue to be seen as a key driver of employment growth.²⁵ In the future, more of the jobs in cities will need to be created in the private sector. Centre for Cities will be publishing work on encouraging growth in UK cities in late 2009.

Delivering low skilled jobs

A reduction in public sector employment will require cities to rethink how the public sector can help the private sector to provide a sufficient base of low- and mid-skilled jobs. Low skilled employment has been less of a priority for many cities in recent years, with a tendency to focus on higher level jobs and innovative sectors. This will change if, as expected, public sector job cuts predominantly fall on non-specialised administrative staff.

Additionally, policy makers at all levels will need to address the disappearing 'bridge' between lower quality and higher quality employment, and the resulting fall in the number of jobs distributed around the median wage.²⁶ The decline of these occupations has been a recent economic trend, as many sectors have become less labour intensive. To some extent the full effect of the trend has been masked by the growth of the public sector, thus far.

Delivering low- and mid-skilled employment is a complex issue, and the role that cities can or should perform is not completely clear. For instance, the amount of low skilled employment in a city is partly a function of derived demand created by the success of other industries. The steps that cities can take include making improvements to the public realm (to enhance the city centre retail experience), improving resident's skills level (particularly core transferable employability skills) and supporting the growth of tradable service sectors, such as tourism and hospitality. However, further consideration needs to be given to the other levers that cities might require.

Retaining specialist talent

While it is predominantly a bad news story, the cutting of public sector employment in the national civil service and quangos offers cities some unexpected opportunities. Some of the staff in these organisations will have valuable experience and niche skills. While the net effect of spending cuts on local authority workforces will be negative, even under constrained budgets some hiring of staff will occur. Opportunities should be taken to fill gaps in local authorities' skills sets, such as the widely documented medium-term shortage of expertise in areas like planning and transport.

24. Plymouth City Council (2006) *Plymouth Local Economic Strategy 2006 – 2021 & Beyond*, Plymouth, Plymouth City Council; Tyne and Wear Development Company (2009) 'Government/Public Sector Relocation', website accessed June 2009

25. Other cities have been more proactive in identifying the difficulties that they face. For example, Swansea acknowledged its reliance on the public sector as a source of employment in 2007.

26. Bell D & Blanchflower D (2009) *What should be done about rising unemployment in the UK?* Stirling: University of Stirling

“A reduction in public sector employment will require cities to rethink how the public sector can help the private sector to provide a sufficient base of low- and mid-skilled jobs”



What can central government do?

Phase job sensitive spending cuts

One area that central government has control over is the timing of spending cuts. Consensus suggests that unemployment will continue to rise into 2011. During the period in which job destruction is outstripping job creation, central government should seek to avoid spending cuts that result in large public sector job losses. If the private sector is not growing, it is unlikely that these workers would find an alternative source of employment.

One option would be to phase cuts under the next spending review, limiting cuts that would have large jobs implications in the first year (2011-12). Other short-term options include freezing or reducing public sector pay and introducing flexible working arrangements, such as switching to part-time posts, to reduce the number of staff hours. While not completely comparable, these methods have been instigated to good effect in the private sector during the recession. Wage bill reduction policies may also be appropriate for local government. Policies that reduce the public sector wage bill have the same impact on the Government's fiscal position as employment reduction.

While the Government's short-term objectives include mitigating the negative economic impact of a falling public sector wage bill, the longer-term objective remains ensuring the Government's finances are on a sustainable path. It seems likely that a longer-term consolidation in the size of the public sector workforce will be required to achieve this goal.

Relocation, relocation

The other policy area for central government to consider is civil service relocations. Under the Lyons programme 19,090 posts have been relocated outside of the GSE. In the 2009 Budget, the Government extended the target number of relocations by 4,000 jobs to 24,000. Given the small number of jobs in question the Lyons programme has been afforded far too much prominence. Even the Budget increase is a tiny number of posts that may largely be taken up by the proposed new civil service campus in Manchester.²⁷

The relocation programme has arguably been a distraction for cities. Cities, and predominantly publicly funded organisations, have spent a lot of time and resource effectively advertising themselves to Whitehall. Government commitment to relocations is pro-cyclical and therefore likely to fall further in future. Relocations are more attractive during a boom when property prices in London and the South East diverge most widely from the rest of the country.

Arguably, it is also not appropriate for government relocation programmes to continue to target cities where the underlying weakness of the private sector undermines the positive impact that adding public sector jobs can have on a city. These cities are perhaps the least likely to generate private sector demand and will now be exposed to job losses as public spending falls.

27. BBC (2009) *Plans made for city 'Whitehall'*, published May 2009

“One option would be to phase cuts under the next spending review, limiting cuts that would have large jobs implications in the first year (2011-12)”



“The public sector spending squeeze will be the overarching narrative of the next decade of British politics”

A fundamental re-evaluation is required to determine the extent to which relocation programmes have played a part in making city economies overly dependent on high levels of public expenditure. This is not to suggest that these places should be left to fail, but that, on previous evidence, a strategy of public sector relocations is unlikely to fix the long-term economic problems that exist in a city.

Conclusions

The public sector spending squeeze will be the overarching narrative of the next decade of British politics. Public sector employment, which has grown significantly over the past decade, will start to shrink. Nationally, between 240,000 and 290,000 jobs could be cut by 2014.

Those cities in which the public sector makes up a large proportion of total employment will be hit hard by recession-related public sector redundancies. The job losses will clearly have a spatial aspect, therefore it is important to consider the local impact as well as the headline national numbers.

Public sector job losses are expected to start shortly, particularly in local government, and accelerate after 2011. Based on previous trends they may continue until 2016. Certain cities, such as Swansea, Barnsley and Ipswich look particularly vulnerable. But larger cities, such as Liverpool and Newcastle will also be hit hard. These cities will need to reassess their near-term economic prospects in the context of declining levels of public sector employment.

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