South East Economy Review – December 2010

Potential impact of public sector cuts on the South East - Update

Contact: Ivan Perkovic or Sabine Rumscheidt
Research & Economics Team
Strategy Department
01483 470 162
research@seeda.co.uk

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Key Messages

- In August 2010 we looked at the potential effects of cuts in public sector spending on employment and Gross Value Added (GVA) across the South East. This paper re-examines the potential effects of these cuts across the South East.

- The South East receives around 11% of total identifiable spending in the country, which is below its share of UK population or GVA. Spending per head of population in the South East is at 87% of the England average. Public expenditure per head of population in the South East is below the national average across all categories of expenditure, with expenditure on housing & community amenities more than a third below the national average.

- Over the spending period total managed expenditure will increase in nominal terms but fall by an average of -19% in real terms. This is likely to lead to potentially large head-count reductions, although this will depend on individual decisions over pay restraint.

- In its November 2010 Outlook the Office for Budget Responsibility (OBR) estimated that general government employment would fall by 330,000 by 2014/15 and that the policy to freeze total public spending in real terms in 2015/16 would imply a further fall of 80,000 in that year. However, the latest estimate is some 200,000 lower than the 610,000 estimate in its preliminary Outlook (June 2010).

- More than one in four persons in employment within the South East are employed in Public Administration, Education and Health, which is often used as a proxy for public sector employment. However, given that Education and Health include a significant proportion of private activities the use of this group would over-estimate the size of the public sector in the South East and across the country.

- The latest data from Department for Business, Innovation and Skills shows that there were 642,000 employee jobs in the public sector within the South East or 17.2% of the total. This is the second lowest proportion in the country after London, but the third highest in absolute term after London and the North West. However, as this is a workplace based figure the total number of people employed in the public sector is likely to be higher (largely due to commuting to London).

- Within the South East Hampshire and Kent have the greatest number of employee jobs in the public sector, but Kent has the greatest share (with more than one in five). The share of public sector employment varies across the region but it is generally higher in southern and eastern parts. The share of public sector employee jobs in over a third of all local authority districts in the South East is above the national average.

- Between 2003 and 2008 total employment within the region increased faster than the national average, but public sector employment has increased twice as fast as the national average. Over this time several relatively deprived parts of the region have seen strong growth in employment but several other areas (and the South East as a whole) are now more dependent on public sector jobs than they were in 2003.

- The August paper assumed that the South East would see cuts in line with the proportion of UK public sector employee jobs in the South East. The composition of public sector employment at local authority level had little effect on the overall results, which were largely driven by the size of the public sector employment within an area.

- In this paper we have used new baseline data, the latest OBR forecast and the latest results are driven by the size of the public sector and the composition of the public sector in local authority districts.

- General government employment in the South East could fall by between 48,500 and 54,300 or by 1.3% to 1.5% of total employment. This is lower than the August figure of 74,000 (or 1.9% of the total number of employee jobs) which is hardly surprising given that the national forecast is now lower and that following the CSR2010 the cuts on some areas e.g. education, defence are lower than elsewhere.

- There could be significant differences within the South East with possibly the greatest absolute reductions in Hampshire and Kent. However, as a proportion of total employment the greatest potential effect (direct) could be in Kent and East Sussex. Eight out of the top ten potentially most affected local authority districts are along the coast, but there could be some significant impact on other local authority districts that have significant concentration of public administration jobs such as Maidstone, Winchester or Oxford.

- In addition to the direct effect (the effect on public sector) there will also be indirect effect on private sector that will occur primarily from supply chain cuts and through reduced spending on local services. Total effect on the South East could be in the range of between 70,000 and 80,000 (depending on the impact on the private sector) or between 1.9 and 2.1% of all employee jobs in the South East. However, this does not mean that up to 80,000 people are going to lose their jobs as lower replacement demand due to labour turnover within the public and private sector could lead to lower employment over time.

- At local authority (county) level the results again indicate that the total effect on Kent and East Sussex could be greater than elsewhere. However, as we have little information about the supply chains and the impact of cuts on those supply chains the indirect effect and spatial distribution could look rather different. It is plausible that due to greater concentration of private businesses is Berkshire, Buckinghamshire and Surrey the indirect effect on those counties could be greater than suggested here. Furthermore, a number of areas will be exposed due to significant commuting to London or within the South East.

- The estimated effect on GVA as a share of total GVA in the region could be in the range of 4.4% to 5.2% by 2015/16, but some counties within the South East could see losses of up to 7.2%. It is important to understand that the above results make no provision for the latest OBR forecasts which shows that growth in private sector employment is expected to more than offset the impact of cuts in general government employment.

- Regional averages often mask significant intra-regional disparities in economic performance and within the South East those differences are usually greater than elsewhere. Local authority districts along the coast are often underperforming relative to other areas within the South East and often nationally on a number of indicators (employment, unemployment, job density, deprivation etc). Those economies appear to be more exposed to direct cuts in public spending and general government employment than other areas. However, other local authorities could be equally more exposed to indirect cuts due to greater concentration of private businesses in those areas.

- According to some studies (such as the recent Experian study for BBC), local authorities in the South East are better placed to withstand economic shocks than most other places in the country. However, according to the UK Competitiveness study by the Centre for International Competitiveness over a third of all local authorities in the South East appear to be less competitive than the national average.

Overview

In August 2010 we looked at the potential effect of cuts in public sector spending on employment and Gross Value Added (GVA) across the South East. The paper was based on the preliminary Office for Budget Responsibility (OBR) June forecasts which anticipated a 12% reduction in the public sector workforce (some 610,000 jobs) over the next 6 years. In the August paper the composition of public sector employment at local authority level had little effect on the overall results, which were largely driven by the size of the public sector within an area.[1]

This paper re-examines the potential effects of these cuts on the South East economy. The starting point in our analysis is recently released data on public sector employment at the local authority level. To determine which areas of the South East are most exposed to employment losses and reductions in output we have used the latest forecast produced by the Office for Budget Responsibility (OBR) published on 30 November 2010 and several results from the Comprehensive Spending Review 2010.

Part 1 is a brief overview of public spending by function and department in the South East and the main results from the CSR2010.

Part 2 looks at the public sector employment across the region and changes in public and private sector employment at local authority (county and local authority district) and Travel to Work Area (TTWA) level between 2003 and 2008.

Part 3 looks at potential effect on employment and GVA in the South East and at spatial distribution across local authorities (county and local authority district) in the South East.

Part 4 looks at several major indicators of economic performance (employment, unemployment , job density) and at how competitive and resilient local authorities within the South East are to economic shocks.

1. Public expenditure in the South East

This section provides a brief analysis of public sector spending in the South East using data from the Public Expenditure Statistical Analysis (PESA) and a brief summary of the Comprehensive Spending Review (CSR 2010). Public expenditure relates to total identifiable expenditure by central government, public corporations and local authorities.[2]

The South East received around £64.3bn in public expenditure in 2009/10, which was 11.5% of total identifiable spending in the country (Table 1.1).[3] This is below the South East's share of the UK population and Gross Value Added (GVA) of 13.7% and 15.5% respectively.[4] Over the past four years public expenditure in the region (nominal expenditure) has increased by 31.5% (or 7.1% per annum). Furthermore, real identifiable expenditure on services in the region has increased by 4.4% p.a. on average between 2005/6 and 2009/10.

Total expenditure of £64.3bn in 2009/10 equated to £7,642 per head of population which is well below the English average (87% of the England average), Table 1.2.[5]

Social protection was by far the largest component (function) of total identifiable expenditure in the South East. In 2009/10 it accounted for £26.3bn or 41% of all identifiable spending in the South East. However, expenditure per head of population on social protection in the South East was 87.7% of the England average (Table 1.3). The next largest component was Health, which accounted for almost a quarter of total identifiable expenditure in the South East.

1 The only exception was NHS employment – since it was announced in the Budget that NHS funding has been ring fenced, to incorporate this into our analysis we applied a weighting factor to each district to reflect its exposure to the non-NHS public sector.

2 PESA section 4 (country and regional tables) are available at HMT website: http://www.hm-treasury.gov.uk/pesa2010_section4.htm

3 Identifiable expenditure accounts for 83.5% of total expenditure on services, 12.7% is non-identifiable expenditure and 3.8% is accounted for by accounting adjustments (Figure xxx).

4 Residence based figure. Workplace based GVA was 14.4% of the UK total in 2008.

5 This is the second lowest in the country (based on planned expenditure for 2009/10). However, over the past four years it averaged 85% of the national average (same as in the East of England).

Table 1.1: Total **identifiable expenditure on services** by country and region, 2009-10*

Region/Country	£ million	% of identifiable expenditure
North East	24,669	4.4
North West	63,990	11.5
Yorkshire and the Humber	44,276	7.9
East Midlands	35,383	6.3
West Midlands	46,881	8.4
East	43,826	7.8
London	77,826	13.9
South East	**64,250**	**11.5**
South West	42,388	7.6
Total England	**443,488**	**79.4**
Scotland	52,320	9.4
Wales	28,780	5.2
Northern Ireland	19,070	3.4
UK identifiable expenditure	543,658	97.3
Outside UK	15,098	2.7
Total identifiable expenditure	**558,756**	**100.0**

Summary	£ million	% of Total Managed Expenditure
Identifiable expenditure	558,756	83.5
Non-identifiable expenditure	85,292	12.7
Public sector expenditure on services	**644,048**	**96.2**
Accounting adjustments	25,212	3.8
Total Managed Expenditure	**669,260**	**100.0**

*planned expenditure
Source: HMT 2010 Public Expenditure Statistical Analysis (PESA) Tables

Table 1.2: Total **identifiable expenditure on services** by country and region, **per head** 2009-10*

Region/Country	£ per head	Index (UK=100)
North East	9,588	109
North West	9,228	105
Yorkshire and the Humber	8,399	95
East Midlands	7,878	90
West Midlands	8,620	98
East	7,602	86
London	10,139	115
South East	7,642	87
South West	8,058	92
Total England	**8,559**	**97**
Scotland	10,083	115
Wales	9,597	109
Northern Ireland	10,662	121
UK identifiable expenditure	**8,798**	**100**

*planned expenditure
Source: HMT 2010 Public Expenditure Statistical Analysis (PESA) Tables

Table 1.3: Total **identifiable expenditure on services by function**, South East England 2009-10*

Function	**Nominal**		**Real**		Capital (real)		Current (real)		**Per head**
	£ million	%	£ million	%	£ million	%	£ million	%	Index, UK=100
General public services	848	1.3	832	1.3	130	15.7	702	84.3	71.3
Social protection	26,302	40.9	25,811	40.9	119	0.5	25,693	99.5	87.7
Defence	10.1	0.02	9.9	0.02	0.3	2.8	9.7	97.2	99.8
Public order and safety	3,376	5.3	3,314	5.3	229	6.9	3,085	93.1	76.3
Economic affairs	4,590	7.1	4,504	7.1	1,837	40.8	2,667	59.2	83.1
Environment protection	1,314	2.0	1,290	2.0	351	27.2	939	72.8	86.4
Housing and community amenities	1,410	2.2	1,384	2.2	963	69.6	421	30.4	65.0
Health	14,790	23.0	14,514	23.0	928	6.4	13,586	93.6	91.9
Recreation, culture and religion	932	1.5	915	1.5	274	29.9	641	70.1	80.8
Education	10,677	16.6	10,478	16.6	1,350	12.9	9,128	87.1	89.9
Total	**64,250**	**100**	**63,052**	**100**	**6,180**	**9.8**	**56,872**	**90.2**	**86.9**

*planned expenditure
Source: HMT 2010 Public Expenditure Statistical Analysis (PESA) Tables

Public expenditure per head of population in the South East is below the national average across all categories, with expenditure on Housing & community amenities more than a third below the national average (Table 1.3).

Table 1.4: Total **identifiable expenditure on services by department**
South East England 2009-10*

Department/Body	Nominal		Real	Capital (real)		Current (real)	
	£ million	%	£ million	£ million	%	£ million	%
Local Authority Spending	18,267	28.4	17,927	1,983	11.1	15,944	88.9
Department for Work and Pensions	15,958	24.8	15,660	29	0.2	15,632	99.8
Department of Health	14,359	22.3	14,092	897	6.4	13,195	93.6
HM Revenue and Customs	3,936	6.1	3,863	52	1.4	3,811	98.6
Department for Business, Innovation and Skills	2,902	4.5	2,847	403	14.2	2,444	85.8
Department for Transport	1,909	3.0	1,873	1,196	63.9	677	36.1
Department for Education	1,825	2.8	1,791	104	5.8	1,686	94.2
Department of Communities and Local Government	1,047	1.6	1,027	800	77.9	227	22.1
Ministry of Justice	1,028	1.6	1,009	93	9.2	916	90.8
Department for Environment, Food and Rural Affairs	804	1.3	789	27	3.4	763	96.6
Ministry of Defence	564	0.9	554	0	0.0	554	100.0
Cabinet Office	370	0.6	363	8	2.1	355	97.9
Department of Energy and Climate Change	331	0.5	325	208	64.2	116	35.8
Home Office	225	0.4	221	43	19.6	178	80.4
Department for Culture, Media and Sport	198	0.3	195	63	32.6	131	67.4
HM Treasury	4	0.01	4	0	0.0	4	100.0
Foreign and Commonwealth Office	27	0.04	26	1	2.0	26	98.0
Department for International Development	23	0.04	23	0	0.0	23	100.0
Other	473	0.7	464	273	58.8	191	41.2
Total	**64,250**	**100**	**63,052**	6,180	9.8	56,872	90.2

*planned expenditure
Source: HMT 2010 Public Expenditure Statistical Analysis (PESA) Tables

Table 1.4 is a breakdown of nominal and real spending by government department in the South East. It shows that over 75% of all identified spending in the region comes from Local Authorities, Department for Work and Pension and Department for Health.

In the **Comprehensive Spending Review (CRS) 2010** the chancellor has announced that total managed expenditure will increase from £696.8bn in 2010/11 to £739.8bn in 2014/15, which is an increase in nominal term. However, in real terms total managed expenditure will fall on average by -19% over the spending period (some £81bn by 2014/15).[6] This headline figure hides some significant inter-departmental variations, particularly between capital and resources budgets. Of the cost announced in the CSR £46bn will fall on departmental running costs. This is likely to lead to potentially large head-count reductions, although this will depend on individual decisions over pay restraint.

In its latest **Economic and Fiscal Outlook (November 2010)** the Office for Budgetary Responsibility (OBR) said that employment in the UK has already reached levels that the interim Outlook (June 2010) did not anticipate until mid 2012. In the interim report OBR estimated that general government employment would fall by 490,000 by 2014/15 (or 610,000 by 2015/16). The latest report shows that general government employment would fall by 330,000 by 2014/15 and that the Government's policy to freeze total public spending in real terms in 2015/16 would imply a further fall of 80,000 in that year.[7]

The OBR expects the economy to continue to recover, but at a slower pace than in the recoveries following the last three recessions. The OBR expects employment growth in the market sector to more than offset cuts in general government employment. Total employment in the UK is expected to increase from 29.1 million to 30.1 million in 2015.

6 HM Treasury (2010) Spending review 2010, is available at: http://www.hm-treasury.gov.uk/spend_index.htm

7 Office for Budget Responsibility (2010) Economic and fiscal outlook, November 2010 is available at: http://www.hm-treasury.gov.uk/data_obr_index.htm

2. Public sector employment in the South East

The preferred source of public sector employment data at regional level is the National Statistics Public Sector Employment (PSE) series. However, at sub-regional level the Annual Business Inquiry (ABI) employee jobs estimates are often used.[8]

According to the ABI more than one in four employees in employment within the South East are employed in Public Administration, Education and Health which is often used as a proxy for public sector employment in the region and across the country. However, given that Education and Health include a significant proportion of private activities the use of this group would over-estimate the size of the public sector in the region and across the country.

In this update to the August 2010 paper we have used the latest estimate of public and private sector employee jobs published by the Department of Business, Innovation and Skills in October 2010.[9]

In 2008 there were 642,000 employee jobs in the public sector within the South East or some 12% of the total in Great Britain (5,403,000).[10] This is the third highest number after London and the North West (some 56,000 lower than in London and 6,000 lower than in the North West). Some 17.2% of all employee jobs within the region are in public sector which is below the national average of 20.4% and the second lowest proportion in the country after London. However, as this is workplace and not residence based figure the total number in the region is likely to be higher due to net commuting to places outside the region (largely London).

Within the South East, the greatest number of employee jobs in the public sector can be found in Hampshire and Kent (Table 2.1). More than one in five of all employee jobs in Kent and around 18.6% in Hampshire are in the public sector. On the other hand less than 14% of all employee jobs in Buckinghamshire and Berkshire are in the public sector.

Figure 2.1: **Proportion of employee jobs in the public sector**, by Local Authority (**County**) 2008

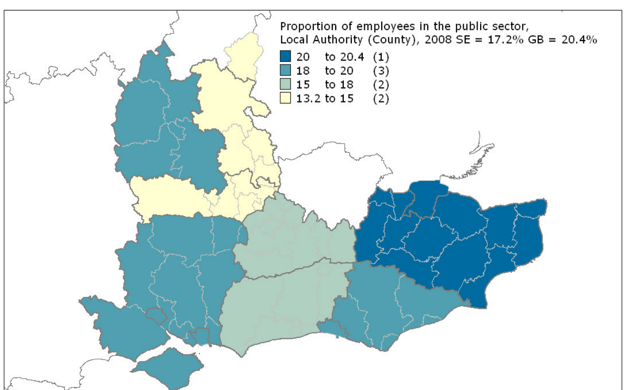


Table 2.1: **Public sector employee jobs** by Local Authority (**County**), 2008

County	Public Sector Employee jobs, 2008
Hampshire	152,600
Kent	130,400
Surrey	78,000
Berkshire	64,000
Oxfordshire	61,400
East Sussex	56,200
West Sussex	52,600
Buckinghamshire	46,400
South East	641,600

Source: BIS/ONS 2010

The share of public sector employment varies across the region but public sector employee jobs generally account for a larger share of total employment in southern and eastern parts of the region (Figure 2.1) and local authority districts (Figure 2.2) and particularly along the coast of East Sussex, Kent and parts of Hampshire.

8 Data provides estimates of employee, rather than workforce, jobs. Self-employed jobs, HM Forces and Government Supported trainees are therefore excluded (Workforce jobs = employee jobs + self-employed jobs + HM Forces + Government Supported trainees). Estimates are counts of employee jobs not employment (which is a measure of the number of people in employment). The level and share of self-employment, HM Forces and Government Supported Trainees will differ between areas. The limitations and caveats that accompany this data are available at: http://stats.berr.gov.uk/ppse/index.asp

9 Data is available at: http://stats.berr.gov.uk/ppse/index.asp

10 The latest BIS estimate of 642,000 is close to the 630,000 figure we used in the August paper (adjusted for those working for nationalised banks and other public corporations).

The share of public sector employee jobs in over a third of all Local Authority Districts in the South East is above the national average, with Hastings, Maidstone, Winchester, Oxford, Portsmouth, Gosport, Worthing and the Isle of Wight having more than one in four employee jobs in the public sector (Figure 2.2).

Figure 2.2: **Proportion of public sector employee jobs** by Local Authority **(District/Unitary),** 2008

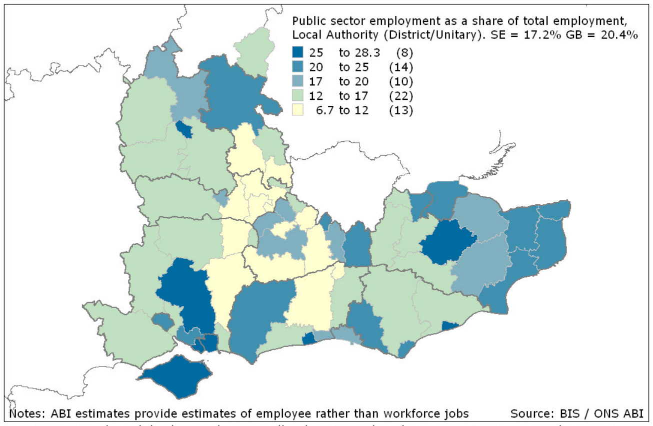
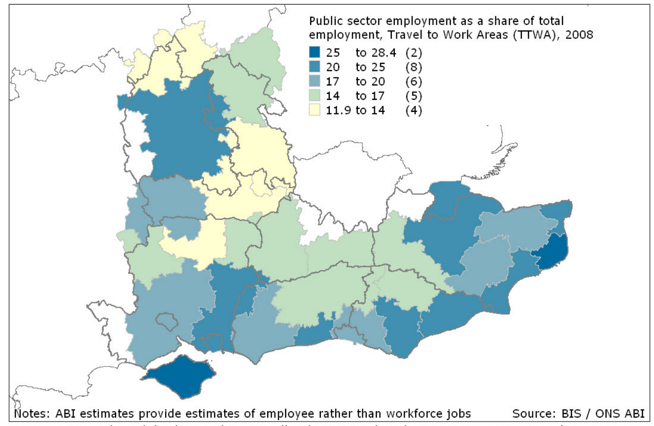


Figure 2.3: **Proportion of public sector employee jobs by Travel to Work Area** (TTWA), 2008



Between 2003 and 2008 the number of employee jobs in the region increased by some 211,000 or 6%, faster than the national (Great Britain) average of 5.4% (Table 2.2 and Table 2.3).

Table 2.2: **Growth in employee jobs** by region, 2003-2008

Region/Country	Total	Private	Public
London	301,800	279,400	22,900
South East	**210,800**	**150,900**	**59,100**
Scotland	149,500	113,300	36,700
East Midlands	130,600	104,300	26,100
South West	120,800	104,200	16,700
East of England	114,700	85,000	29,500
West Midlands	79,700	63,100	16,100
North West	77,000	71,000	6,300
Wales	74,800	68,000	7,600
Yorkshire and the Humber	70,600	44,400	25,400
North East	26,400	19,500	7,100
Great Britain	**1,356,700**	**1,103,100**	**253,500**

Source: BIS/ONS 2010

Table 2.3: **Percentage change in employee jobs** by region, 2003-2008

Region/Country	Total %	Private %	Public %
London	7.8	8.8	3.4
East Midlands	7.5	7.4	7.6
Wales	6.8	8.7	2.4
Scotland	6.7	6.8	6.4
South East	**6.0**	**5.1**	**10.1**
South West	5.8	6.3	3.8
East of England	5.1	4.6	7.6
West Midlands	3.5	3.5	3.5
Yorkshire and the Humber	3.3	2.6	5.4
North West	2.6	3.1	1.0
North East	2.6	2.6	2.7
Great Britain	**5.4**	**5.5**	**4.9**

Source: BIS/ONS 2010

Over this period private sector employment in the region increased by 151,000 or 5.1%, marginally below the national average of 5.5%. However, the public sector employment in the South East increased by 59,000. Growth in public sector employment in the South East over this period was twice as fast as the national average (Table 2.3).

The fastest increase in **employee jobs** was in the Banbury Travel to Work Area (TTWA), Ashford TTWA and Canterbury TTWA.[11] However, some of the most deprived parts of the region also experienced relatively strong growth in employee jobs, namely the Portsmouth TTWA and Margate, Ramsgate and Sandwich TTWA (Figure 2.5).

11 Travel to work areas (TTWAs) are approximations to self-contained labour markets based on commuting to work patterns.

Figure 2.4: **Growth in employee jobs** by Local Authority (**District/Unitary**), 2003-2008

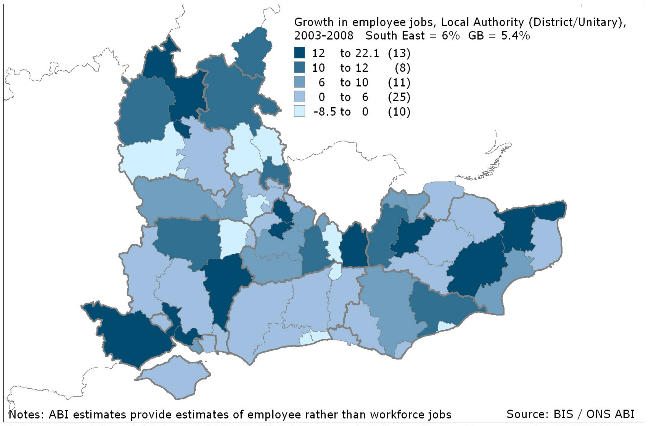
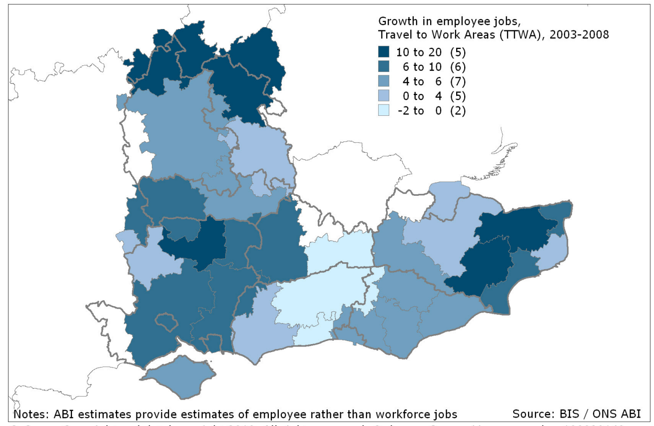


Figure 2.5: **Growth in employee jobs by Travel to Work Area** (TTWA), 2003-2008



At Local Authority District level Fareham and New Forest have seen the fastest increase in employee jobs in the region (22% and 19.6% respectively). Several of the most deprived districts in the region, including Gosport, Gravesham and Thanet have also seen relatively strong growth of between 9% and 14.2% over the period (Figure 2.4).

Figure 2.6: **Growth in private sector employee jobs** by Local Authority (**District/Unitary**), 2003-2008

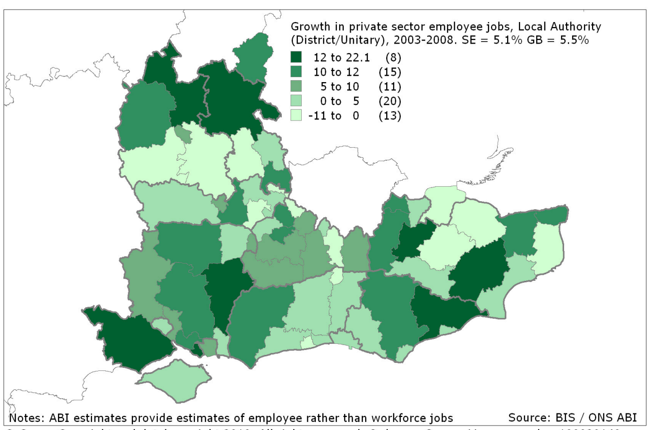
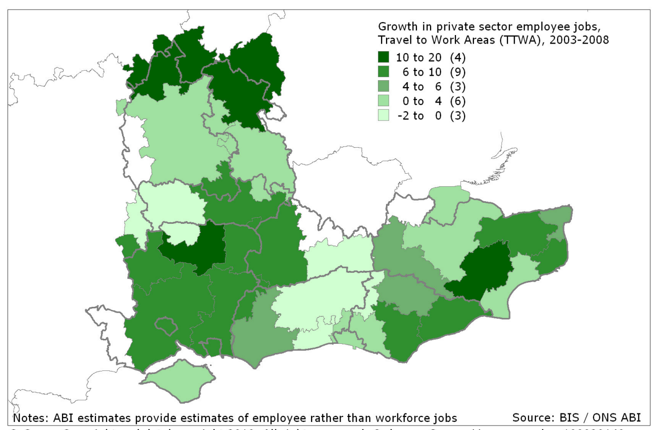


Figure 2.7: **Growth in private sector employee jobs** by **Travel to Work Area** (TTWA), 2003-2008



The fastest increase in **private sector employee jobs** was in the Banbury, Ashford and Milton Keynes & Aylesbury TTWAs. The Portsmouth, Hastings and Southampton TTWAs also experienced relatively strong growth in the private sector employment (Figure 2.7). Over this period the total number of private sector employee jobs in Gosport local authority district expanded by almost a fifth, the second fastest increase in the region after Aylesbury Vale. Thanet was another area where employment increased by 11.5%, albeit from a low base (Figure 2.6).

The growth in **public sector jobs** was fastest in parts of Oxfordshire and West Berkshire (Newbury TTWA) and parts of East Kent (Folkestone TTWA and Margate, Ramsgate & Sandwich TTWA). There was a fall in public sector employee jobs in several TTWA, including Chichester & Bognor Regis, Andover and Hastings (Figure 2.9).

Figure 2.8: **Growth in public sector employee jobs** by Local Authority (**District/Unitary**), 2003-2008

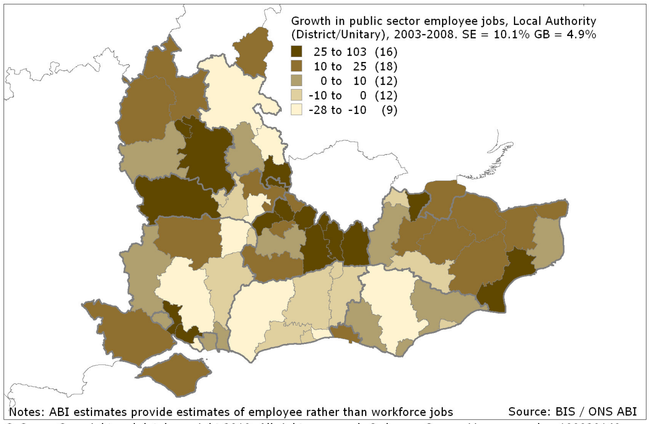
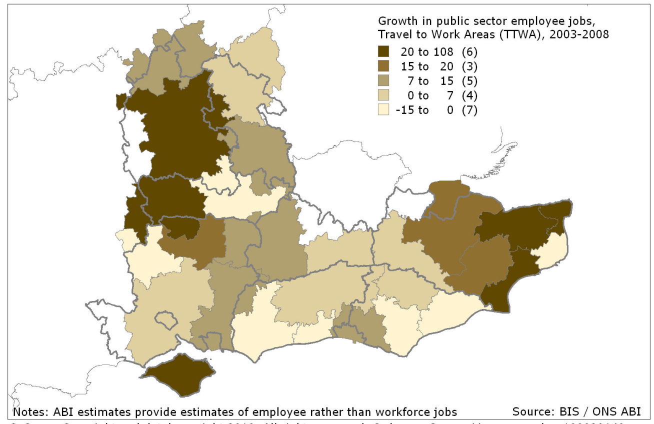


Figure 2.9: **Growth in public sector employee jobs** by **Travel to Work Area** (TTWA), 2003-2008



There was a relatively sharp increase in several local authority districts in Surrey (and several other areas), albeit from a relatively low base (Figure 2.8).

3. Potential impact and spatial distribution at local level

In the August paper we used the OBR estimate of a fall in general government employment of 610,000 by 2015/16. Our central scenario was based around the projected 12% decline in public sector, employment and its potential impact on GVA. The paper assumed that the South East will see cuts in line with the proportion of UK public sector employee jobs in the South East (11%, equivalent to around 74,000 employee jobs). The composition of public sector employment at local authority level had little effect on the overall results, which were largely driven by the size of the public sector employment within an area.[12]

In this paper we have used new baseline data (we have used the latest estimate of public sector employee jobs from BIS), we have incorporated several results from the CSR 2010 and in our preferred scenario we have constrained the results to the latest OBR forecasts released on 30 November 2010.[13] The latest results are driven by the size of the public sector and the composition of the public sector (e.g. those areas that have more education, health or defence than say public administration are now likely to be less exposed and vice versa).

The interim OBR forecasts (June 2010) showed that general government employment would fall by 490,000 over the four years of the Spending Review (or 610,000 by 2015/16). In its latest report (November 2010) OBR now expects general government employment to fall by 330,000 over the Spending Review period to 2014/15. However, according to OBR the Government's policy to freeze total public spending in real terms in 2015/16 would imply a further fall of 80,000 in that year. Hence, general government employment is forecast to fall by 410,000 over the next five years to 2015/16, which is 200,000 lower than in its interim report. The results presented in this paper are based on the potential effect over the next five years and national constraint of 410,000.

We have developed several options some of which are either weighted to BIS data and constrained to national OBR forecast or left unconstrained.

Option 1: Local authority district level data from ONS, **constrained to OBR November** forecast but not weighted to BIS data.[14]

12 The only exception was NHS employment – since it was announced in the Budget that NHS funding has been ringfenced, to incorporate this into our analysis we applied a weighting factor to each district to reflect its exposure to the non-NHS public sector.

13 In line with the CSR2010 we have assumed that the impact of cuts on defence, education and health would be proportionally smaller that on other areas (such as public administration).

14 The constraint is national to allow regional variation, e.g. if education is affected by more than other departments, the South East will be relatively more affected due to higher than average exposure to this sector and vice versa.

Option 2: Local authority district level data weighted (at local authority district level) to BIS ABI data but **not constrained to the OBR November forecast**.

Option 3: Local authority district level data weighted (at local authority district) to BIS ABI data and **constrained to the OBR November forecast**.

Figure 3.1 and Table 3.1 show **direct effect on employment** in the South East and the local authorities (counties) within the South East for Options 2 and 3 (unconstrained and constrained estimates to OBR forecasts and weighted to BIS data). General government employment in the region is projected to fall by between 48,500 and 54,300 or by between 1.3% and 1.5% of total employment within the South East. Under both options the direct effect is lower than the August figure of 74,000 or 1.9% of the total number of employee jobs within the region. However, this is hardly surprising given that the national forecast is now lower (from 610,000 to 410,000) and that the cuts on education, defence and health (the type of activities concentrated within the region) are lower than on other areas (such as general public administration).

Figure 3.1: **Direct Effect** by Local Authority (County) (constrained and unconstrained estimates), % 2010/11-2015/16

Source: SEEDA December 2010 estimate

Table 3.1: **Direct Effect** by Local Authority (County) (constrained and unconstrained estimates), absolute 2010/11-2015/16

County	**Constrained and Unconstrained estimates**
Hampshire	11,540 - 12,938
Kent	9,915 - 11,116
Surrey	5,711 - 6,403
Berkshire	4,780 - 5,359
Oxfordshire	4,407 - 4,941
East Sussex	4,400 - 4,933
West Sussex	4,205 - 4,714
Buckinghamshire	3,498 - 3,921
South East	48,456 - 54,326

Source: SEEDA December 2010 estimate

There are significant differences within the South East (driven by the composition and size of the public sector). The greatest absolute reduction in general public sector employment is projected in Hampshire and Kent, up to 12,900 and 11,100 respectively (Table 3.1). However, as a proportion of total employment the greatest potential direct effect is projected in Kent and East Sussex (around 1.5% to 1.7% of total employment), Figure 3.1. In the August paper Oxfordshire appeared to be the most exposed county within the South East followed by East Sussex and Kent. The main reason behind the change can now be found in the composition of the public sector with Oxfordshire having relatively higher concentration of education and health than other areas.[15]

Further results at regional and local authority level (county and district) presented in this paper are based on **Option 3 (constrained to national forecasts)**.

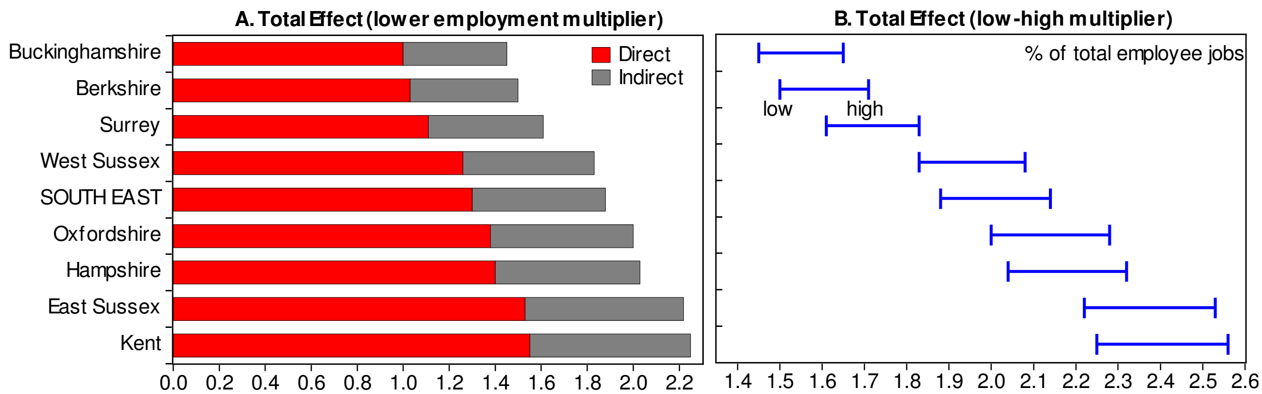
In addition to the direct effect (the effect on public sector employee jobs) there will also be **indirect effect** through associated job losses in the private sector. These job losses will occur primarily from supply chain cuts and through reduced spending on local services by those losing their jobs which will have an induced effect on the private sector.

In the August paper we used the average value of employment multiplier of 1.45, which would imply that in addition to the direct effect of 48,500 another 21,800 jobs could go in the private sector (or some 1.9% of total employment within the region).[16] The overall effect on several counties within the region is likely to be greater, from around 2% of employment in Oxfordshire and Hampshire to around 2.2% of employment in Kent and East Sussex (Figure 3.2A).

15 In the August paper the composition of public sector employment made little impact on the overall results, which is not the case in the latest update. (it is now having significant impact on the overall results.

16 A value of 1.45 implies that for every 100 public sector job losses in the public sector there would be some 45 redundancies in private sector.

Figure 3.2: **Potential impact on total employment** by 2015/16
(Direct, Indirect and Total Effect)



Source: SEEDA 2010 estimate (national estimate constrained to OBR November 2010 forecast)

As there is a lack of evidence on the 'true' value of the employment multiplier, we also present findings for a higher multiplier value (1.65), to examine effects of higher impact on the private sector.[17]

A higher indirect employment multiplier would imply a loss of some 31,500 private sector jobs (instead of 21,800 under the lower multiplier). Thus, a total of some 80,000 employee jobs could be lost which would represent some 2.1% of all employee jobs within the region. Hence, the total impact on employment within the region could be in the range of between 1.9% and 2.1%, depending on the value of the multiplier (Figure 3.2B). However, this does not mean that 80,000 people are going to lose their jobs (or that employment is going to decline by between 1.9 and 2.1%), as lower replacement demand due to labour turnover within the public (and private) sector could result in lower employment over time.[18] In this section we present results for both direct and indirect effect, again making no provision for private or public sector job replacement.[19]

At local authority (county) level, the results again indicate that the total effect on Kent and East Sussex is likely to be much greater than on say Buckinghamshire and Berkshire (Figure 3.2B). However as we have little information about the supply chains and the impact of cuts on those supply chains the indirect effect and spatial distribution could look rather different to the one presented here. It is plausible that due to greater concentration of private businesses in say Buckinghamshire, Berkshire and Surrey the indirect effect on those counties could be greater than indicated here.

Figure 3.3 shows direct effect on local authority districts. The greatest effect in absolute terms is likely to be in large towns or places that have significant numbers of public sector employment such as Oxford, Portsmouth, Southampton, Brighton and Hove, Maidstone, Winchester etc. However some of these economies are relatively large and may be in a better position to absorb those cuts than smaller economies. Therefore, looking at the share of the total workforce that could be affected is more appropriate here and as indicated in Figure 3.4 areas that could be affected the most are likely to include several coastal local authority districts.

Eight out of the top ten potentially most affected local authority districts can be found along the coast, but there could also be some significant impact on other local authorities districts that have significant concentration of public administration jobs such as Maidstone in Kent, Winchester in Hampshire and Oxford in Oxfordshire. However, the direct effect in many local authority districts around London and elsewhere could be greater than shown here due to commuting to London and within the South East.

17 This is similar to the value used in similar studies e.g SWO/SWRDA (2010) Impact of public sector spending cuts: emerging evidence base for the South West, September 2010 but still well below the values used in other studies e.g. PwC (2010) Sectoral and regional impacts of the spending freeze: an economic analysis of the impact of spending cuts and tax rises, October 2010.

18 Many public sector bodies might not replace staff who have left voluntarily.

19 In its latest forecast (November 2010) OBR expect employment growth in the market sector to more than offset cuts in general government employment, just as it did in the consolidation of the mid 1990s.

Figure 3.3: **Potential (Direct) effect on employment**, by Local Authority (District/Unitary) by 2015/16, **absolute**

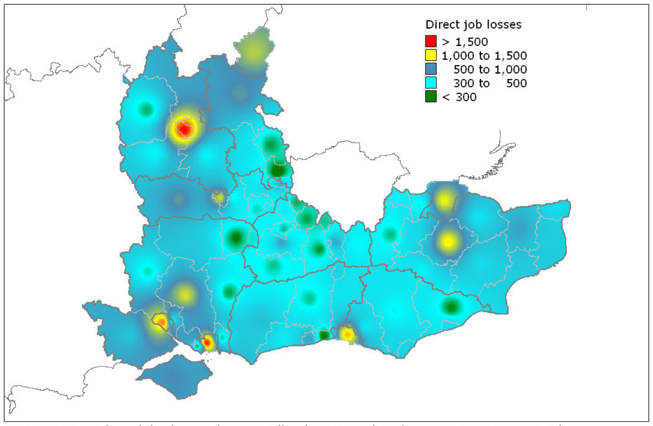
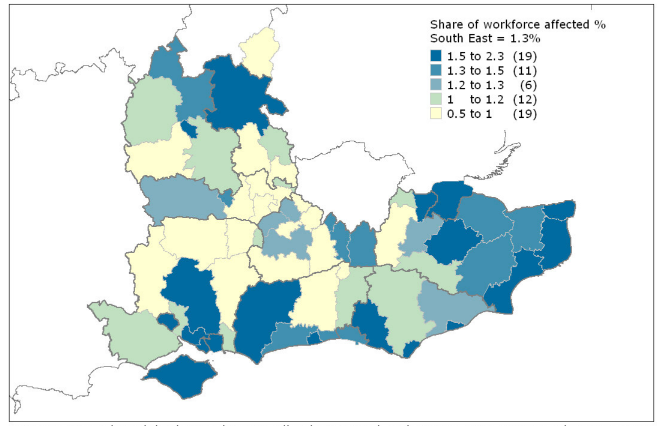
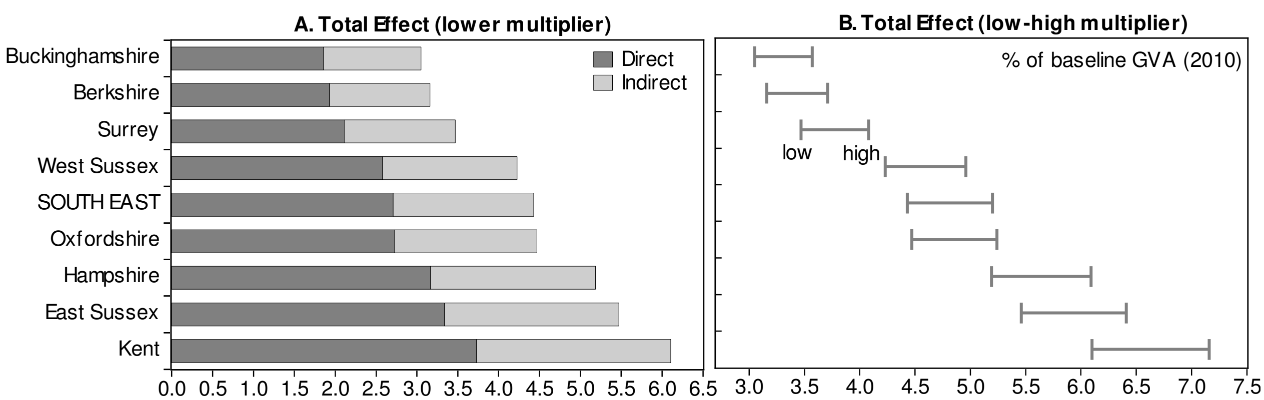


Figure 3.4: **Potential (Direct) effect on total employment**, by Local Authority (District/Unitary) by 2015/16, **share of employment (%)**



It is possible to look at possible effect on real Gross Value Added by local authority (county). Figure 3.5A shows the estimated effect on GVA as a share of total GVA (public and private sector) in the region and by local authority (county) under a lower multiplier effect. In this case the impact on the region by 2015/16 could be up to 4.4% of GVA.[20] However, if we were to assume a higher multiplier effect the total impact could be up to 5.2% of GVA. As shown in Figure 3.5B, potential effect on a number of local authorities (counties) could be significantly above the regional average.

Figure 3.5: **Estimated effect on Gross Value Added (GVA)** by 2015/16
(Direct, Indirect and Total Effect)



Source: SEEDA 2010 estimate (national estimate constrained to OBR November 2010 forecast)

4. Competitiveness and resilience to economic shocks

The number of people claiming Jobs Seekers Allowance (JSA) in the South East in October 2010 was 127,400. The claimant count rate of 2.4% was well below the national average of 3.5%. However, regional averages often mask significant intra-regional disparities (perhaps more in the South East than elsewhere given the number of local authorities).[21]

20 Starting point in our analysis were estimates of real GVA by Local Authority (County) from Experian (Local Area Markets Database). Our analysis is also underpinned by productivity per employee job estimates and productivity growth for public and private sector by 2015/16.

21 For further details see SEEDA Annual Monitoring Reports, available at: http://www.seeda.co.uk/news-and-publications/publications/1/research-and-economics-res

Within the South East **unemployment** in over a third local authority districts is above the South East average and in a number of coastal districts it is above the national average (Figure 4.1).
However, using the broader measure of unemployment (the Labour Force Survey measure), in the three months to September 2010 there were 278,000 unemployed people in the region or 6.2% of economically active population which is the second lowest of any region after the South West (5.5%).

Figure 4.1: **Claimant count unemployment rate**, by Local Authority (District/Unitary) October 2010

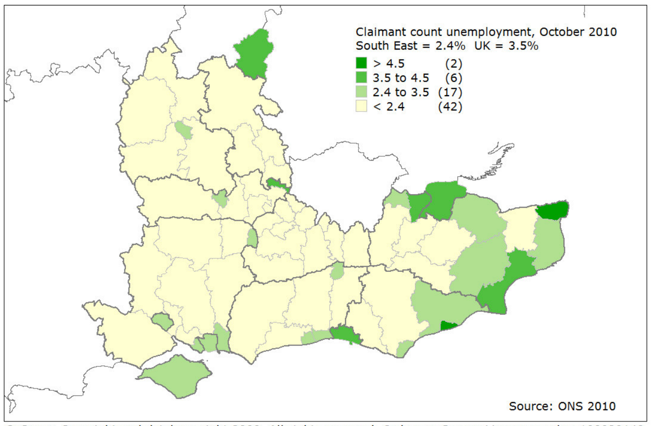
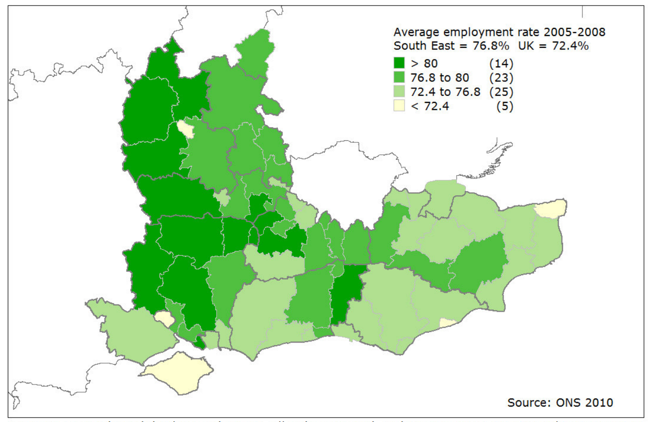


Figure 4.2: **Employment rate**, by Local Authority (District/Unitary) 2005-2008



As indicated in Figure 4.2 there are significant disparities in **employment** rates within the South East. The average employment rate in the South East was 76.8% between 2005 and 2008, higher than the national average of 72.4%. The employment rate in several coastal districts and large towns (such as Southampton and Oxford) is below the national average and employment rate in almost a half of all local authority districts is below the South East average (Figure 4.2).

Figure 4.3: **Business and jobs density** in the South East, by Local Authority (district) 2008

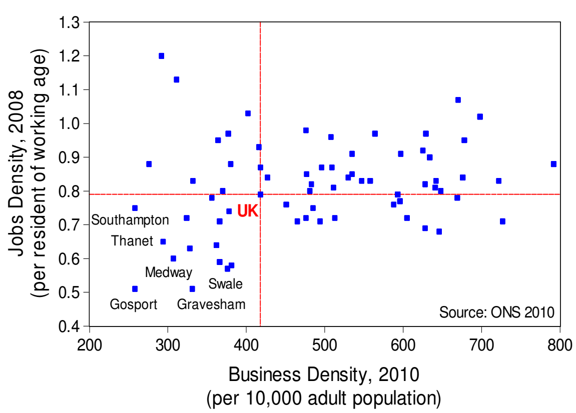
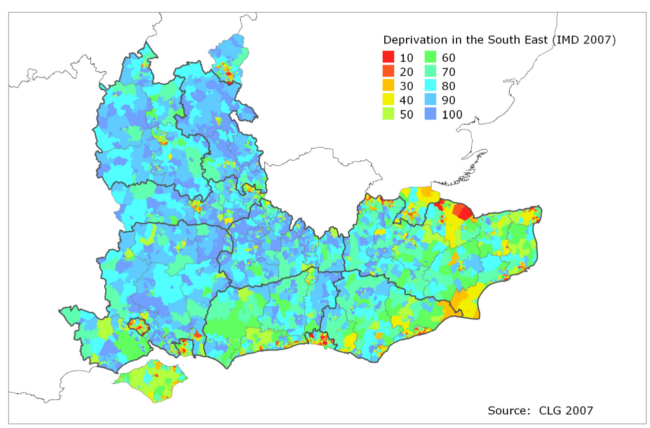


Figure 4.4: **Deprivation** in the South East, IMD 2007



Several factors are behind the differences in economic performance within the South East, one of which is relatively low number of jobs in a number of local authority districts. In 28 local authority districts **job density** is below the national average (in over a half it is below the regional average). Over a third of all local authority districts in the region have **business density** below the national average and in over a half it is below the South East average (Figure 4.3).

Some 485,000 people in the region live within the 20% most deprived areas in the country. This represents just 5.9% of the total population in the region.[22] The most deprived areas are again concentrated in some of the coastal resorts of the South East and larger towns (Figure 4.4).

Five local authority districts in the South East are ranked within the 100 most deprived in England's - Hastings, Thanet, Brighton & Hove, Southampton and Portsmouth.

However, the overall Index of Multiple Deprivation (IMD) also masks significant disparities with regard to several IMD domains.[23] For example, the levels of deprivation in the barriers to housing and services domain are high in the South East. Around 17% of people in the South East live within the 20% most deprived areas nationally and 7% within the bottom decile (10%) nationally on this IMD domain.

According to a research report carried out by Experian (commissioned by the BBC) large parts of the South East are well equipped to weather future economic shocks.[24] It appears that apart from several local authority districts along the coast, most areas are relatively resilient to economic shocks (Figure 4.5). However, according to another report produced by the Centre for International Competitiveness the level of competitiveness in over a third of all local authority districts in the South East is below the UK average (Figure 4.6).[25]

Figure 4.5: **Resilience to economic shocks** by Local Authority (District/Unitary) 2010

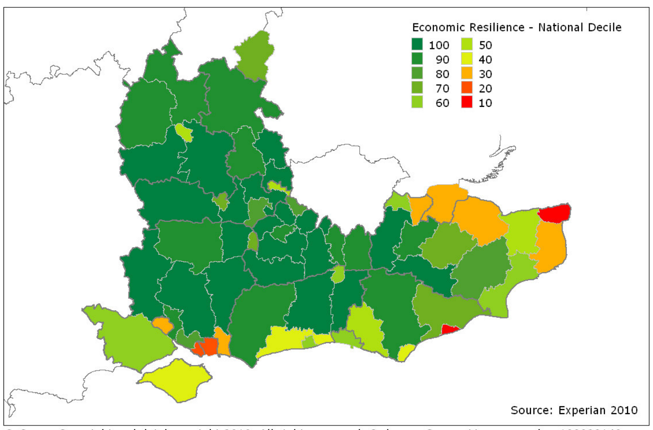
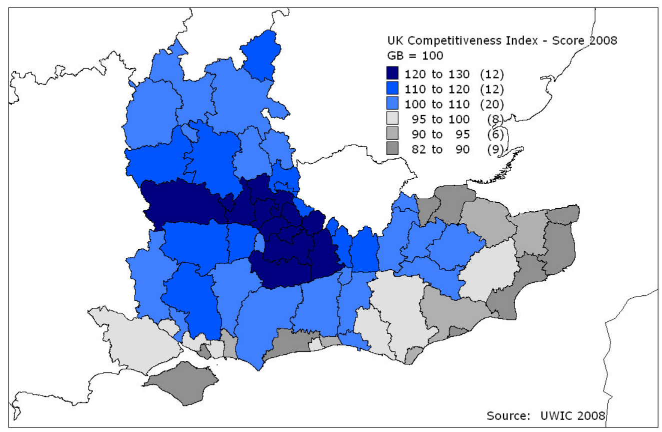


Figure 4.6: **South East Competitiveness** relative to UK average, by Local Authority (District/Unitary)



In some ways, a number of local authorities in the South East bear more similarities in structure to areas which are generally understood to be more at risk, such as parts of northern England, than they do to wealthier parts of the South East. It appears that those local authorities in the South East vulnerable to reduction in public sector employment are also those that may be least well-placed to cope with them.

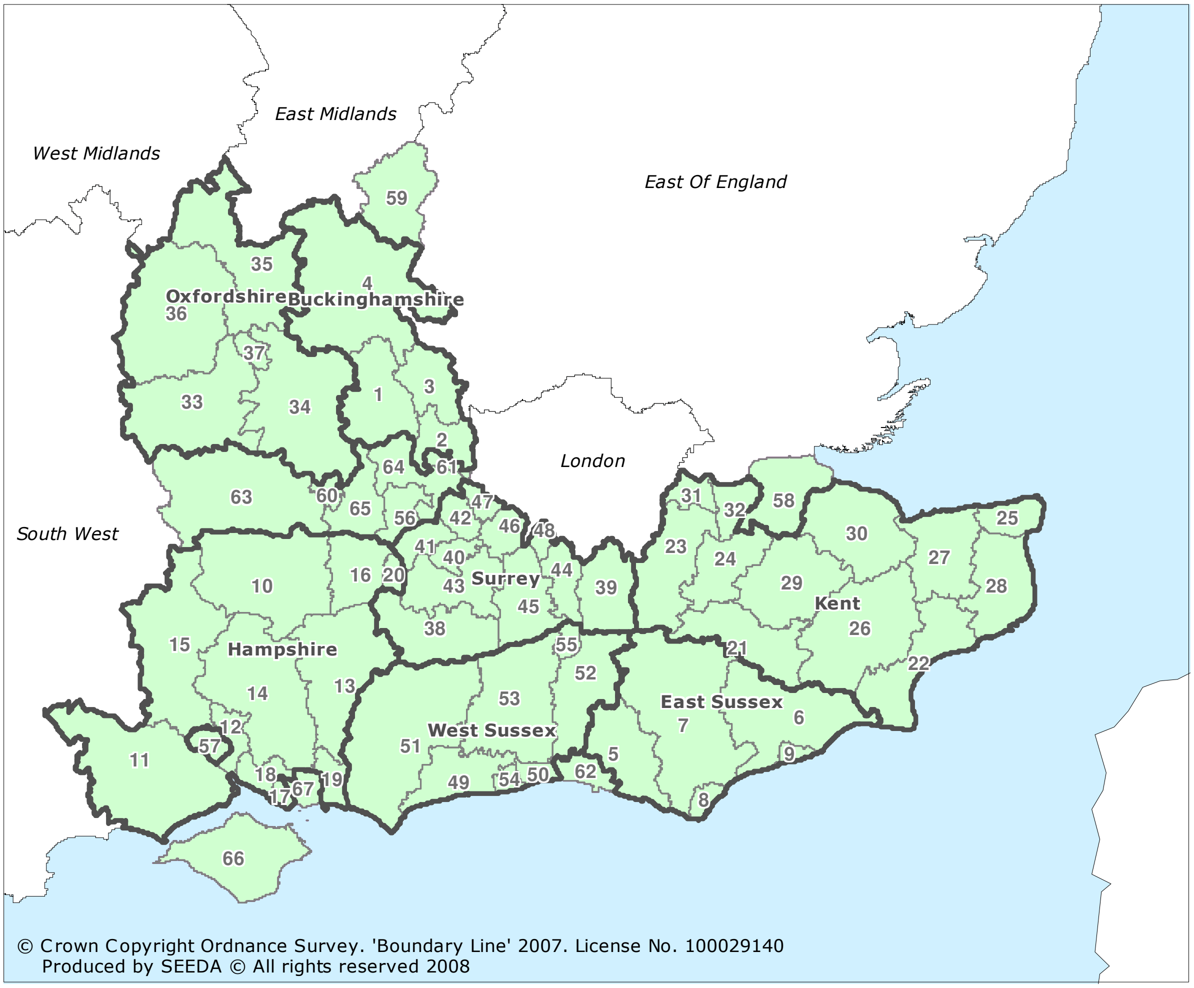
22 Department for Communities and Local Government (2007) The English Indices of Deprivation report is available at: http://www.communities.gov.uk/publications/communities/indicesdeprivation07

23 The Index is made up of seven distinct dimensions of deprivation called Domains (or Domain Indices).

24 Resilience is a concept used to describe the ability of an area to withstand and respond to shocks in the external environment.

25The Centre was founded by Professor Robert Huggins of the University of Wales Institute, Cardiff and Dr Hiro Izushi of Aston Business School, and is the home of the influential World Knowledge Competitiveness Index, European Competitiveness Index, and UK Competitiveness Index. For further information about the South East see SEEDA Policy & Economics Brief (September 2008) The UK Competitiveness Index 2008: How competitive is the South East and its sub-regions?

Figure A1: South East England



1 - Wycombe
2 - South Buckinghamshire
3 - Chiltern
4 - Aylesbury Vale
5 - Lewes
6 - Rother
7 - Wealden
8 - Eastbourne
9 - Hastings
10 - Basingstoke & Deane
11 - New Forest
12 - Eastleigh
13 - East Hampshire
14 - Winchester
15 - Test Valley
16 - Hart
17 - Gosport
18 - Fareham
19 - Havant
20 - Rushmoor
21 - Tunbridge Wells
22 - Shepway
23 - Sevenoaks
24 - Tonbridge & Malling
25 - Thanet
26 - Ashford
27 - Canterbury
28 - Dover
29 - Maidstone
30 - Swale
31 - Dartford
32 - Gravesham
33 - Vale of White Horse
34 - South Oxfordshire
35 - Cherwell
36 - West Oxfordshire
37 - Oxford
38 - Waverley
39 - Tandridge
40 - Woking
41 - Surrey Heath
42 - Runnymede
43 - Guildford
44 - Reigate & Banstead
45 - Mole Valley
46 - Elmbridge
47 - Spelthorne
48 - Epsom & Ewell
49 - Arun
50 - Adur
51 - Chichester
52 - Mid Sussex
53 - Horsham
54 - Worthing
55 - Crawley
56 - Bracknell Forest
57 - Southampton
58 - Medway Towns
59 - Milton Keynes
60 - Reading
61 - Slough
62 - Brighton & Hove
63 - West Berkshire
64 - Windsor & Maidenhead
65 - Wokingham
66 - Isle of Wight
67 - Portsmouth

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Approved by:	Ivan Perkovic	Date:	10-12-10

SEEDA Headquarters
Cross Lanes
Guildford
GU1 1YA
England
Email: seeda@seeda.co.uk
Tel: +44 (0) 1483 484200
Fax: +44 (0) 1483 484247

Chatham Maritime Office
The Observatory
Brunel
Chatham Maritime
Kent ME4 4NT
England
Tel: +44 (0) 1634 899900
Fax: +44 (0) 1634 899901

For more information, please visit SEEDA's website www.seeda.co.uk