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West Midlands Skills Assessment 2010

Briefing paper one The local impact of public sector job cuts

Draft report
September 2010

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Draft 2.0
September 2010

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1 Introduction

The 2010 West Midlands Skills Assessment builds on work we have already done during the year to inform the West Midlands Skills Partnership (WMSP) in the development of a statement of strategic skills priorities for the region. In particular we provide additional intelligence to inform the work of 'task & finish' groups set up by the WMSP to take forward key issues highlighted in the statement of strategic skills priorities, notably:

- Improving careers information, advice and guidance
- Developing a coherent 'skills offer' for inward investors
- Facilitating better collaborative working between employers, colleges and universities

The research will also inform the work of local authorities to develop Local Economic Assessments for their areas and the strategic thinking and priority setting of the new Local Enterprise Partnerships.

This briefing paper is one of a series we are producing during the summer and autumn to support this work. We consider the scale of the cuts in public sector activity being made by the government and assess the extent to which the West Midlands, and different sub-regions and localities within it, have become dependent on the public sector. We then identify the likely scale of public sector job losses in across the region and their likely impact on local economies - including private sector businesses¹. This analysis is based on a customised scenario we have produced using our forecasting system - the Policy Assessment Model. Further details of the scenario and its findings can be downloaded from the Observatory website (www.wmro.org) in due course.

The other papers in the series look at the following key issues:

- The skills required to achieve stronger growth in private sector GVA and jobs in the region
- If this can be achieved - where new jobs would be created across the region by sector and geography
- The underlying causes of the skill gaps and shortages that threaten to constrain business growth
- The size of the 'market' for new employment in different parts of the region and the numbers of jobs needed to achieve 'full employment'

¹ It should be noted, however, that this forecast does not take account of any private sector job creation that might be stimulated by new market opportunities arising due to the withdrawal of public sector services

2 Key headlines

2.1 National context

Across the UK public sector employment has grown significantly in recent years and has been the key driver of the expansion of the economy. At the same time public sector organisations are a key procurer of goods and services from the private sector and spending by employees is a key source of demand in sectors such as retail, hospitality and leisure. The public sector is also a vital source of funding for voluntary and community organisations.

Proposals from the government announced to make £83bn worth of cuts in public sector spending are forecast to lead to the loss of up to 600,000 public sector jobs across the UK over the next 6 years. There will also be a significant knock-on effect for organisations dependent on funding from the public sector. An average reduction in expenditure of between 25% and 40% is planned for most government departments and latest intelligence suggests that up to 180 non-departmental bodies or quangos will be abolished and a further 124 will be merged. Meanwhile although proportionately reductions in expenditure on education will be less significant and the overall budget for health will be protected, there will still be substantial cuts in absolute terms.

The public sector cuts are also expected to have a significant impact on organisations dependent on funding from the public sector. These include organisations providing health, community safety, education and training and a wide range of other services to promote the regeneration of local communities. For example research indicates that more than third of voluntary organisations are at risk due to restrictions their ability to build up cash reserves. At the same time it is estimated that up to 1.2 million jobs in the private sector across the UK are directly dependent on public sector spending and a further 1.1 million jobs depend on the supply chain of these companies.

Reductions in public sector spending and cancelled contracts are expected to impact significantly on a number of key private sector industries. As well as firms involved in new build, companies providing repair and maintenance services, specialist trades such as plumbers, heating ventilation & air conditioning engineers and electricians and down-stream manufacturers of key inputs such as bricks and steel are also significantly affected. At the same time organisations providing out-sourced services to public sector organisations such as IT and telecoms, PR and marketing, HR and finance are also likely to be affected by reduced levels of spending. In areas with a high dependence on public sector employment there will also be a knock on effect on the demand from public sector workers for key support services. These include public transport, car parking, nurseries and crèches, food outlets and pubs and bars. In many cases these services are provided by small and micro businesses which have already been significantly affected by the recession and limited access to finance due to the 'credit crunch'.

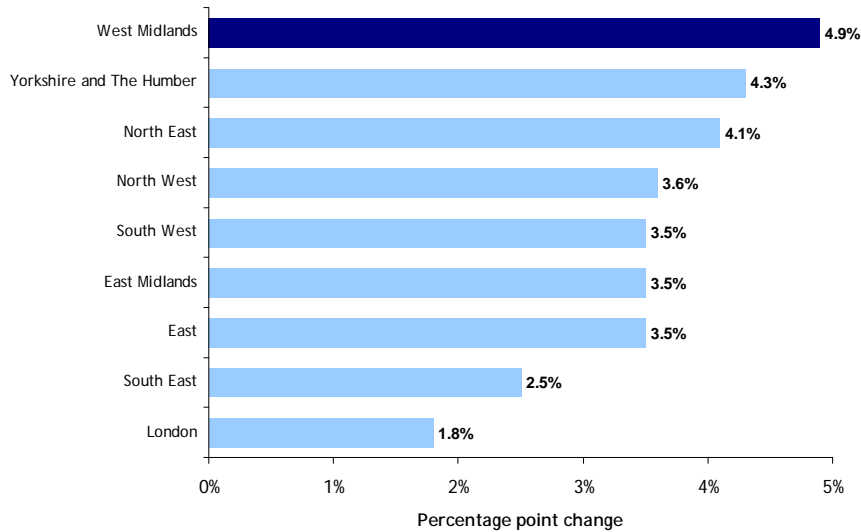
These developments are expected to have a significant impact on overall unemployment levels - particularly in areas such as Wales and the north of England which are particularly dependent on public sector employment.

2.2 Impact in the West Midlands

The West Midlands economy is particularly vulnerable to the impact of the cuts. The West Midlands was the only region in England to see a decline in private sector employment between 1998 and 2008 and has lagged behind in terms of innovation and diversification into new products, services and markets. For example inward investment attracted into the region has tended to be in lower value added manufacturing activities with declining markets rather than faster growing, higher value added industries.

As a result the region's dependence on public sector employment has increased significantly. As chart 1 below shows, between 1998 and 2008 (latest available figures) the region saw the most significant increase in dependence on public sector employment in the country. The share of jobs accounted for by the public sector increased from 22% in 1998 to 27% in 2008, a rise of 5 percentage points, bringing total public sector employment to some 637,000.

1. Change in dependence on public sector employment, 1998-2008

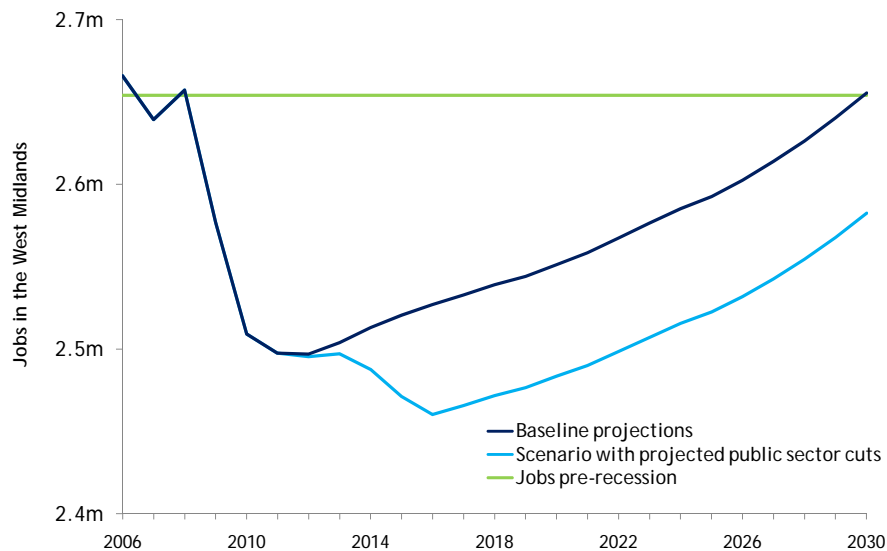


Source: ONS Annual Business Inquiry

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We forecast that between 2010 and 2016 public sector employment across the West Midlands will fall by more than 80,000 with job cuts of nearly 35,000 in education, nearly 30,000 in health & social care and nearly 18,000 in other public sector organisations such as the police and fire services, local authorities and regional offices of national government and other public bodies. For example it has been announced that organisations employing significant numbers of people in the region such as Advantage West Midlands, the Government Office for the West Midlands, the Qualifications and Curriculum Development Agency, the Commission for the Compact and British Waterways will all be abolished. As a result the region's significant dependence on the public sector means that the modest recovery in overall GVA and employment by 2016 predicted in our baseline forecast, produced before the cuts were announced, will be stalled.

2. Regional employment forecasts to 2030 - baseline and scenario



Source: Observatory Policy Assessment Model

West Midlands Regional Observatory 2010 2

Instead GVA will grow by less than 9% (£9 billion) over the 2010-2016 period which compares with growth of 15% (over £11 billion) between 2000 and 2007. There will also be a net loss of nearly 50,000 jobs across the economy and employment levels in the West Midlands are not expected to return to pre-recession levels until well beyond 2030. As a result available job opportunities will be insufficient to meet the demands of more than a million workless people in the West Midlands. Only an urgent, radical, transformational change will create the jobs needed to provide work for the unemployed, help maintain social cohesion and provide prosperity for all in the region.

In addition, based on the ratio of the number of private sector jobs dependent on public sector spending and the associated supply chain nationally, a further 310,000 jobs are at risk at private sector firms directly or indirectly reliant on public sector spending². Nearly half of public sector employees in the West Midlands are qualified to degree level or above - and are likely to be in relatively highly paid jobs - which compares to just 27% in the private sector. As a result job losses are likely to have a significant impact on consumer spending in the region - and particularly in areas with a high degree of dependence on public sector employment.

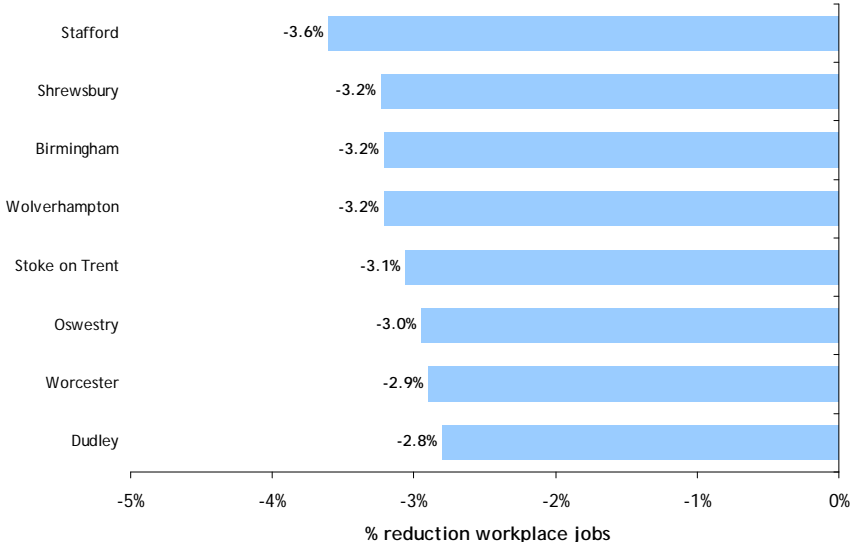
² It should be noted, however, that this forecast does not take account of any private sector job creation that might be stimulated by new market opportunities arising due to the withdrawal of public sector services

2.3 Impact at a local level

Research commissioned by the BBC reveals that the economies of particular areas of the West Midlands are particularly vulnerable to the planned cuts in public sector spending. Stoke-on-Trent and Wolverhampton are specifically identified as areas that lack the resilience to withstand tougher economic times as they lag behind in areas such as the adaptability of local businesses, levels of wages and skills among the workforce and the extent of social and economic deprivation

Furthermore these areas are among those that have become particularly reliant on public sector jobs and are likely to see the most significant job losses. For example in *Stafford* some around 24,000 jobs (40% of all employment) was in the public sector in 2008, the highest proportion in the region - with 11,500 jobs (19%) in health & social care and a further 7,000 jobs (12%) in other public sector services. Nearly 2,200 public sector jobs are forecast to be lost and there is expected to be a fall of nearly 4% in total workplace jobs by 2016 - the highest rate of decline in the West Midlands (see chart 3).

3. Reduction in total workplace jobs by 2016 due to public sector cuts



Source: Observatory Policy Assessment Model

West Midlands Regional Observatory 2010 3

In *Shrewsbury* there were 17,800 public sector jobs, accounted for some 38% of employment, in 2008. 10,100 jobs (21%) were in health & social care and a further 3,700 (8%) were in other public sector services. More than 1,500 public sector jobs are forecast to be shed by 2016 and there will be a decline of more than 3% in total workplace jobs.

Although at less than 500 the reduction in public sector jobs forecast for *Oswestry* is more modest, the area has seen the most significant increase in dependence on public sector jobs in the West Midlands at 11 percentage points between 1998 and 2008. Some 2,400 jobs (16% of all employment) were in health & social care and a further 1,800 (12%) were in education. As a result there is expected to be a decline of nearly 3% in total workplace jobs by 2016.

At just over 17,000 *Birmingham* is forecast to see the most significant loss of public sector jobs in absolute terms. Some 156,000 jobs (nearly a third of all employment) were in the public sector in 2008. 64,900 (13%) were in health & social care and a further 37,000 (8%) were in other public sector services and a decline of nearly 3% in total workplace jobs is forecast by 2016.

Other areas with a significant reliance on public sector jobs particularly vulnerable to the impact of the cuts include *Wolverhampton* where around 3,600 public sector job losses are expected and there will be a fall of more than 3% in total workplace jobs by 2016. In *Dudley*, meanwhile, a fall of around 3,400 in public sector employment and a decline of nearly 3% in total workplace jobs is forecast. In *Stoke-on-Trent* around where 3,300 public sector jobs are forecast to be shed by and there will be a fall of more than 3% in total workplace jobs. In *Worcester* a net loss of around 1,600 jobs is expected by 2016 and there is expected to be reduction of nearly 3% in the total number of workplace jobs.

In addition nearly 67,000 jobs are at risk at private sector businesses in Birmingham dependent on the public sector. In Wolverhampton the figure is nearly 14,000 and in Dudley the figure is nearly 13,000. In Stoke-on-Trent, meanwhile, more than 12,000 private sector jobs could be at risk. The figure for Stafford is nearly 9,000 and around 6,000 private sector jobs could be at risk in both Shrewsbury and Worcester.

Many of these areas already have unemployment rates above the regional and national average and employment prospects are likely to worsen further as a result of the cuts.

3 National Context

3.1 The economic impact of the public sector

Public sector employment has grown significantly in recent years with the creation of some 1.2 million net new jobs across England between 1998 and 2008 (latest available figures). Indeed the public sector was the key driver of the expansion of the economy with employment growth of nearly a quarter comparing with a figure of just 4% in the private sector³.

In turn the expansion of the public sector has supported the regeneration and expansion of local economies across the country. With half of staff qualified to degree level or above the public sector has been a key source of higher skilled 'knowledge based' jobs. In cities such as York, Oxford and Cambridge the education and health sectors, in particular, have attracted spin-off businesses in areas such as ICT and medical and environmental technologies⁴.

At the same time the government provides some £13 billion of support each year to the voluntary and community sector⁵ and public sector organisations are a key procurer of goods and services from the private sector. For example in 2007-2008 the public sector purchased almost £80bn of services from the private and voluntary sectors across the country. While the public sector supports 1.2 million jobs directly a further 1.1 million are supported in the supply chain and by spending by employees in sectors such as retail, hospitality and leisure⁶.

³ Source: ONS Annual Business Inquiry

⁴ Source: the Work Foundation – Ideopolis II final report, 2010

⁵ Source: National Council for Voluntary Organisations, 2010

⁶ Source: The Work Foundation and Oxford Economics, June 2010

3.2 The impact of cuts in public sector spending

In June 2010 the government announced that, in order to tackle the budget deficit, it would be necessary to make the most substantial cuts in public sector spending seen in many decades. This involves making overall savings of £83bn by 2016 - with an average reduction in expenditure of between 25% and 40% for the majority of government departments and latest intelligence suggests that up to 180 non-departmental bodies or quangos will be abolished and a further 124 will be merged⁷. While proportionately reductions in expenditure on education (with cuts of between 10% and 20%) will be less significant and the overall budget for health will be protected, there will still be substantial cuts in absolute terms. In health some £20 billion of cuts are planned (the largest in any government department), including the abolition of all 10 strategic health authorities and 152 primary care trusts. Education spending, meanwhile, is set to fall by up to £11 billion with the cancellation of school rebuilding and refurbishment projects and the rationalisation of management and administration⁸. The Office for Budget Responsibility has forecast that, as a result of the cuts, up to 600,000 jobs could be lost across the UK over the next 6 years⁹.

The public sector cuts are also expected to have a significant impact on the voluntary and community sector. Research indicates that more than third of voluntary organisations are at risk due to restrictions their ability to build up cash reserves. One in five major charities, more than half of smaller charities and a particularly significant proportion of those providing employment and training support, which have seen a surge in demand as unemployment levels have risen, are affected¹⁰.

At the same time it is estimated that up to 1.2 million jobs in the private sector across the UK are directly dependent on public sector spending and a further 1.1 million jobs depend on the supply chain of these companies¹¹. Reductions in public sector spending and cancelled contracts are expected to impact significantly on a number of key private sector industries.

⁷ Source: BBC website, September 2010

⁸ Source: BBC department-by-department cuts watch, August 2010

⁹ Source: Local Futures Group Public Sector Cuts Barometer, July 2010

¹⁰ Source: National Council for Voluntary Organisations, 2010

¹¹ Source: Oxford Economics/Local Futures Group July 2010

In particular public sector spending on construction is expected to halve to £4.5 billion next year. The cancellation of the Building Schools for the Future scheme has been accompanied by a freezing of spending on social housing and the termination of projects to develop or refurbish prisons and local authority buildings. As well as firms involved in new build, companies providing repair and maintenance services, specialist trades such plumbers, heating ventilation & air conditioning engineers and electricians and down-stream manufacturers of key inputs such as bricks and steel are also significantly affected. At the same time organisations providing out-sourced services to public sector organisations such as IT and telecoms, PR and marketing, HR and finance and specialist services such as interpreting and translation are also likely to be affected by reduced levels of spending¹².

In areas with a high dependence on public sector employment there will also be a knock on effect on the demand from public sector workers for key support services. These include public transport, car parking, nurseries and crèches, food outlets and pubs and bars. In many cases these services are provided by small and micro businesses which have already been significantly affected by the recession and limited access to finance due to the 'credit crunch'¹³.

These developments are expected to have a significant impact on overall unemployment levels - particularly in areas such as Wales and the north of England which are particularly dependent on public sector employment¹⁴.

¹² Source: British Chambers of Commerce, CBI, Construction Products Association, HIS Global Insight, July 2010

¹³ Source: anecdotal intelligence from the Federation of Small Businesses

¹⁴ Source: Centre for Economics and Business Research, 2010

4 Dependence on the public sector in the West Midlands

4.1 Dependence in the West Midlands

The West Midlands was the only region in England to see a decline in private sector employment between 1998 and 2008 and has lagged behind in terms of innovation and diversification into new products, services and markets. For example inward investment attracted into the region has tended to be in lower value added manufacturing activities with declining markets rather than faster growing, higher value added industries¹⁵.

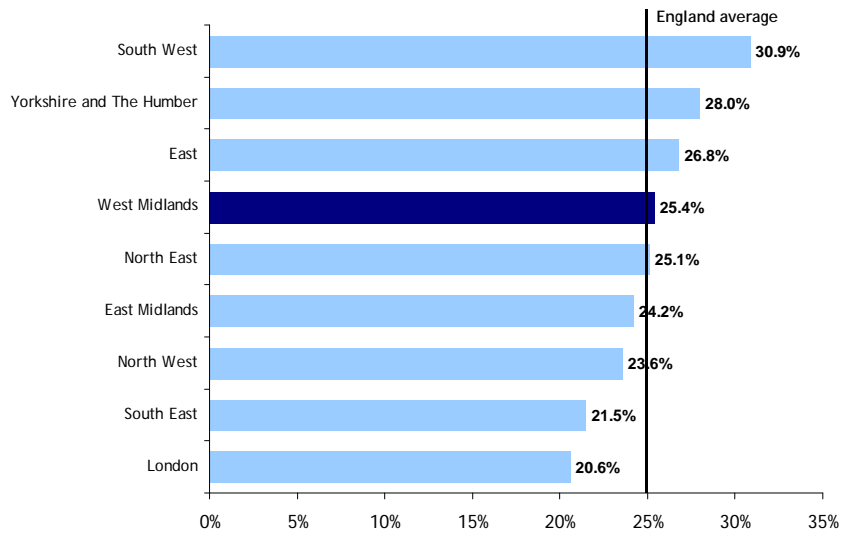
At the same time nearly 130,000 net new jobs were created in the public sector between 1998 and 2008 to bring the total to 636,900. Of these more than 60,000 were created in health & social care, nearly 55,000 were created in education and more than 13,000 were created in other public sector organisations such as the police and fire services, local authorities and regional offices of national government and other public bodies¹⁶.

While public sector employment growth of 25.4% over the period was a little above the England average of 24.6% (see chart 4 overleaf), the decline in private sector employment has meant that the region's dependence on public sector employment has increased significantly. The share of jobs accounted for by the public sector increased from 22% in 1998 to 27% in 2008 -a rise of some 5 percentage points which, as shown in chart 5, was the highest in the country.

¹⁵ Source: Advantage West Midlands – RSS Monitoring Report, December 2009

¹⁶ Source ONS Annual Business Inquiry

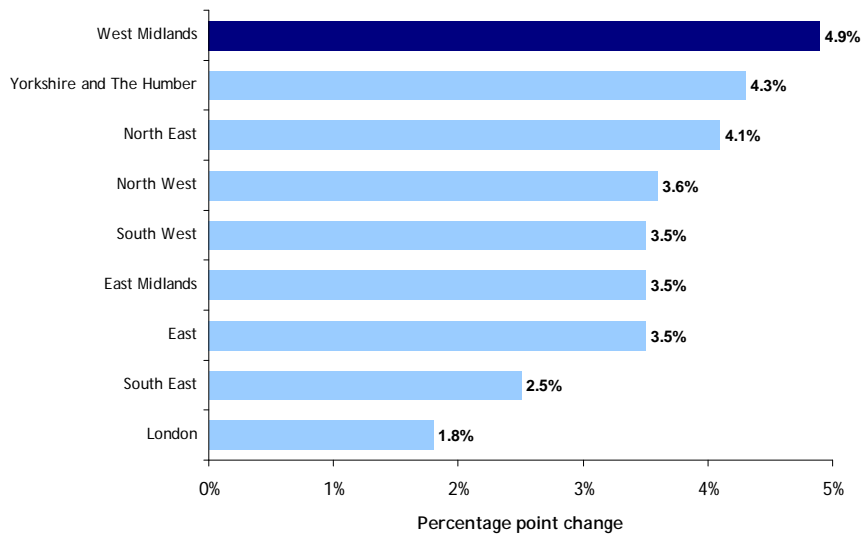
4. Pace of growth in public sector employment by region 1998-2008



Source: ONS Annual Business Inquiry

West Midlands Regional Observatory 2010 4

5. Change in dependence on public sector employment, 1998-2008



Source: ONS Annual Business Inquiry

West Midlands Regional Observatory 2010 5

4.2 Local concentrations of public sector activity

4.2.1 The public sector as a whole

As table 1 shows the most significant numbers of net new public sector jobs were created between 1998 and 2008 in areas in the urban core of the region such as Birmingham (up by 46,000 to 156,000), Wolverhampton (up by 11,400 to 31,800), Dudley (up by 7,900 to 32,700), Sandwell (up by 7,000 to 28,800), Solihull (up by 5,100 to 19,000) and Walsall (up by 4,800 to 23,200)¹⁷. In some of these areas the public sector has come to dominate the local economy. For example in Birmingham public sector jobs accounted for some 32% of employment in 2008, up by 9 percentage points since 1998. In Wolverhampton the figure was 31%, up 10 percentage points and the figure in Dudley was 28%, up 7 percentage points.

Table 1: Trends in employment by local authority area 1998-2008

Areas where most public sector jobs were created between 1998 and 2008	Areas most dependent on the public sector in 2008	Areas where the degree of dependence on the public sector has increased the most
Birmingham 46,000	Stafford 40%	Oswestry +11%
Wolverhampton 11,000	Shrewsbury 38%	Wolverhampton +10%
Dudley 7,900	Birmingham 32%	Birmingham +9%
Sandwell 7,000	Worcester 32%	Dudley +7%
Solihull 5,100	Stoke-on-Trent 31%	Stoke-on-Trent +7%
Walsall 4,800	Wolverhampton 31%	Shrewsbury +7%
	Oswestry 29%	
	Dudley 28%	

Source: ONS Annual Business Inquiry

¹⁷ Source: IBID

While net new job creation was less significant in other parts of the West Midlands there are still a number of locations with a high dependence on the public sector. For example in Stafford public sector jobs accounted for some 40% of all employment in 2008 - the highest figure in the West Midlands. In Shrewsbury 38% of employment was in the public sector - up by 7 percentage points since 1998.

In Worcester, meanwhile, the public sector accounted for 32% of all jobs and in Stoke-on-Trent public sector jobs accounted for 31% of all employment - up by 7 percentage points since 1998. In Oswestry 29% of employment was in the public sector - up some 11 percentage points since 1998 and the biggest increase in the region.

4.2.2 Health & social care

As highlighted in section 3.2 while the national health budget will be protected there will still be significant cuts in key areas - and taken together they are the most substantial of any government department. As table 2 shows in 1998 health & social care organisations accounted for a particularly significant proportion of jobs in Shrewsbury (21%), Stafford (19%), Stoke-on-Trent (18%), Worcester and Oswestry (both 16%).

Table 2: Areas with the highest share of employment in key public sector activities in 2008

Health & social care	Education	Other public sector services
Shrewsbury 21%	Newcastle-under-Lyme 15%	Stafford 12%
Stafford 19%	Coventry 14%	Telford 10%
Stoke-on-Trent 18%	Nuneaton & Bedworth 13%	Shrewsbury 8%
Worcester 16%	Bromsgrove 13%	Birmingham 8%
Oswestry 16%	Malvern 12%	Wolverhampton 6%
Birmingham 13%	Oswestry 12%	Worcester 6%
Wolverhampton 13%		

Source: ONS Annual Business Inquiry

4.2.3 Education

While proportionately reductions in education spending are likely to be less severe than in many other government departments there will still be substantial cuts in absolute terms. As table 2 shows jobs in education accounted for the highest share of jobs in Newcastle-under-Lyme (15%) and Coventry (14%), Nuneaton & Bedworth, Bromsgrove (13% in both cases), Malvern and Oswestry (12% in both cases) in 1998.

4.2.4 Other public sector services

Other public sector organisations such as the police and fire services, local authorities and regional offices of national government and other public bodies are also expected to see substantial cuts in their budgets. As table ... shows in 1998 these organisations accounted for a particularly significant proportion of jobs in Stafford (12%), Telford (10%), Shrewsbury (8%), Birmingham (8%) , Wolverhampton and Worcester (both 6%).

5 The impact of public sector cuts in the West Midlands

5.1 Impact on the West Midlands

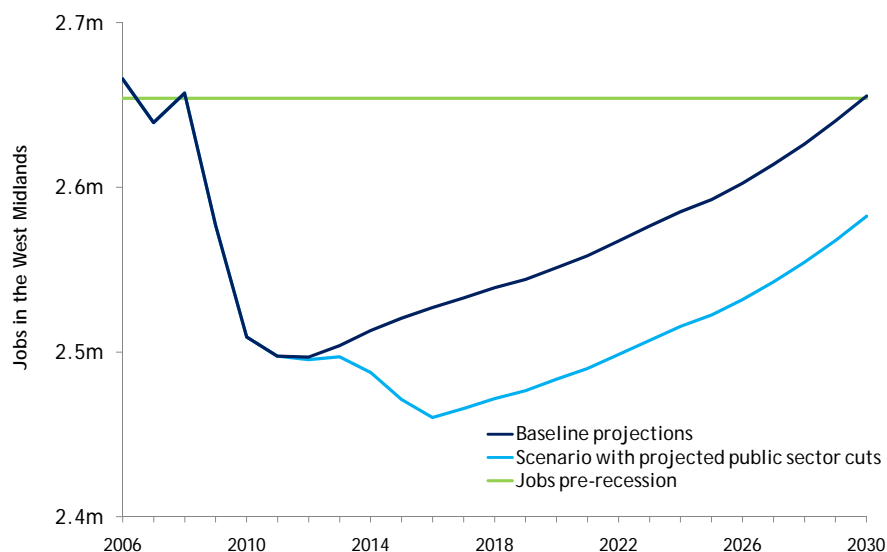
We have developed a scenario using our Policy Assessment Model (PAM) that forecasts the likely reduction in public sector employment in the West Midlands as a result of the cuts. Between 2010 and 2016 public sector employment across the West Midlands is expected to fall by more than 80,000 with job cuts of nearly 35,000 in education, nearly 30,000 in health & social care and nearly 18,000 in other public sector organisations such as the police and fire services, local authorities and regional offices of national government and other public bodies. For example it has been announced that organisations employing significant numbers of people in the region such as Advantage West Midlands, the Government Office for the West Midlands, the Qualifications and Curriculum Development Agency, the Commission for the Compact and British Waterways will all be abolished¹⁸.

As a result the region's significant dependence on the public sector means that the modest recovery in overall GVA and employment by 2016 predicted in our baseline forecast, produced before the cuts were announced, will be stalled. Instead GVA will grow by less than 9% (£9 billion) over the 2010-2016 period which compares with growth of 15% (over £11 billion) between 2000 and 2007. There will also be a net loss of nearly 50,000 jobs across the economy and employment levels in the West Midlands are not expected to return to pre-recession levels until well beyond 2030 (see chart 6 overleaf). As a result available job opportunities will be insufficient to meet the demands of more than a million workless people in the West Midlands. Only an urgent, radical, transformational change will create the jobs needed to provide work for the unemployed, help maintain social cohesion and provide prosperity for all in the region¹⁹.

¹⁸ Source: BBC website, September 2010

¹⁹ Source: West Midlands Skills Partnership – more jobs, better jobs, West Midlands Skills Investment Priorities 2011-2012

6. Regional employment forecasts to 2030 - baseline and scenario



Source: Policy Assessment Model

West Midlands Regional Observatory 2010 6

In addition, based on the ratio of the number of private sector jobs dependent on public sector spending and the associated supply chain nationally highlighted in section 3.2, a further 310,000 jobs in the private sector could also be at risk between now and 2016²⁰. Nearly half of public sector employees in the West Midlands are qualified to degree level or above - and are likely to be in relatively highly paid jobs - which compares to just 27% in the private sector²¹. As a result job losses are likely to have a significant impact on consumer spending in the region - and particularly in areas with a high degree of dependence on public sector employment.

²⁰ It should be noted, however, that this forecast does not take account of any private sector job creation that might be stimulated by new market opportunities arising due to the withdrawal of public sector services

²¹ Source: West Midlands Skills Partnership - West Midlands skills investment priorities 2011-2012, a framework for measuring success, September 2010

6 Impact at local level

Research commissioned by the BBC reveals that the economies of particular areas of the West Midlands are particularly vulnerable to the planned cuts in public sector spending. Stoke-on-Trent and Wolverhampton are specifically identified as areas that lack the resilience to withstand tougher economic times as they lag behind in areas such as the adaptability of local businesses, levels of wages and skills among the workforce and the extent of social and economic deprivation²².

6.1 The scale of job losses in the public sector

Furthermore section 4.2 has already highlighted that these areas are among those with a high and growing dependence on public sector employment. This dependence means that the loss of substantial numbers of public sector jobs will have a significant impact on overall job opportunities and employment prospects in these areas.

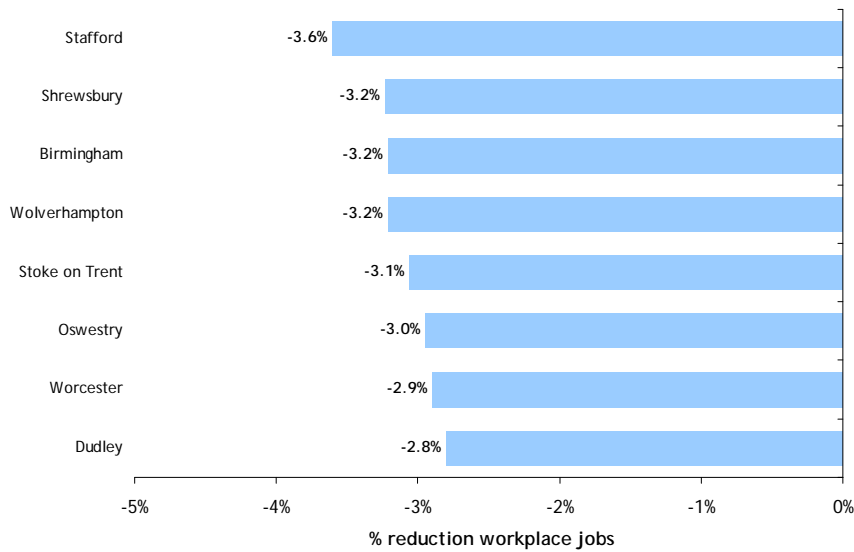
Birmingham is forecast to see the most significant reductions in public sector employment, with a net loss of more than 17,000 jobs by 2016. As shown in chart 7, the area's dependence on public sector employment means that there is expected to be reduction of more than 3% in the total number of workplace jobs in the area by 2016 compared with our baseline forecast.

Other areas within the urban core of the region that have a high and growing dependence on public sector jobs are also forecast to be significantly affected. For example in Wolverhampton, around 3,600 public sector job losses are expected and there will be a fall of more than 3% in total workplace jobs in the area by 2016. In Dudley, meanwhile, a fall of around 3,400 in public sector employment and a decline of nearly 3% in total workplace jobs is forecast.

Other parts of the region are also expected see a significant impact. For example in Stoke-on-Trent around 3,300 public sector jobs are forecast to be shed by 2016 and there will be a fall of more than 3% in total workplace jobs compared with our baseline forecast. In Stafford nearly 2,200 public sector jobs are forecast to be lost and there is expected to be a fall of nearly 4% in total workplace jobs by 2016 - the highest rate of decline in the West Midlands.

²² Source: Experian, September 2010

7. Reduction in total workplace jobs by 2016 due to public sector cuts



Source: Observatory Policy Assessment Model

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In Worcester, meanwhile, a net loss of around 1,600 jobs is expected by 2016 and there is expected to be reduction of nearly 3% in the total number of workplace jobs in the area by 2016 compared with our baseline forecast. In Shrewsbury more than 1,500 public sector jobs are forecast to be shed and there will be a decline of more than 3% in total workplace jobs. Although at less than 500 the reduction in public sector jobs forecast for Oswestry is more modest, the area has seen the most significant increase in dependence on public sector jobs in the West Midlands. As a result there is expected to be a decline of nearly 3% in total workplace jobs by 2016.

6.2 Potential impact on the private sector

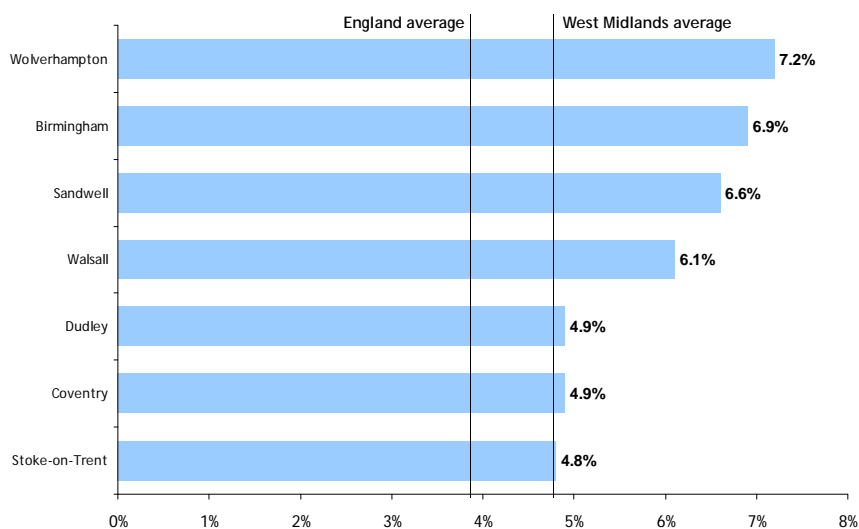
Public sector organisations are a key procurer of goods and services from the private sector. For example, based on the ratio of private sector jobs dependent on public sector spending and the associated supply chain nationally, in Birmingham nearly 67,000 jobs in the private sector could be at risk between now and 2016 (see chart 10). In Wolverhampton the figure is nearly 14,000 and in Dudley the figure is nearly 13,000. In Stoke-on-Trent, meanwhile, more than 12,000 private sector jobs could be at risk. The figure for Stafford is nearly 9,000 and around 6,000 private sector jobs could be at risk in both Shrewsbury and Worcester.

6.3 Potential impact on unemployment

As mentioned in section 2.2 available job opportunities will be insufficient to meet the demands of more than a million workless people in the West Midlands. Only an urgent, radical, transformational change will create the jobs needed to provide work for the unemployed, help maintain social cohesion and provide prosperity for all in the region.

Unemployment levels are likely to continue to rise in the coming years, particularly in areas which are particularly dependent on public sector employment such as the West Midlands. Indeed as chart 11 shows unemployment rates are already above the regional and national average in a number of areas within the region highlighted as having a significant dependence on public sector jobs in section 4.2 - for example Birmingham, Coventry, Dudley, Stoke-on-Trent and Wolverhampton.

8. Job Seekers Allowance claimant rates by local authority, July 2010



Source: Office for National Statistics

West Midlands Regional Observatory 2010 8

7 Conclusions and implications

Proposals from the government announced to make £83bn worth of cuts in public sector spending are forecast to lead to the loss of up to 600,000 public sector jobs across the UK over the next 6 years. There will also be a significant knock-on effect for organisations dependent on funding from the public sector.

The West Midlands was the only region in England to see a decline in private sector employment between 1998 and 2008 and has lagged behind in terms of innovation and diversification into new products, services and markets. As a result the West Midlands has seen the most significant increase in dependence on public sector jobs of all the English regions and is particularly vulnerable to the impact of the impending cuts in public sector spending. We forecast that between now and 2016 more than 80,000 public sector jobs will be lost in the region and there will be a net loss of more than 50,000 jobs across the economy. As a result available job opportunities will be insufficient to meet the demands of more than a million workless people in the West Midlands.

In addition, based on the ratio of the number of jobs dependent on public sector spending and the associated supply chain nationally, a further 310,000 jobs are at risk in the private sector. Of particular concern is the fact that many of the areas of the West Midlands most vulnerable to the cuts already have unemployment rates well above the regional and national average.

Some private sector job creation might be stimulated by new market opportunities arising due to the withdrawal of public sector services, and it will be important to match public sector workers entering the job market with the skills needed to these. Nevertheless this is likely to be insufficient to provide work for the unemployed, help maintain social cohesion and provide prosperity for all in the region.

As a result there is a need for urgent, radical action to create more and better jobs in the private sector - notably an economic diversification strategy to attract more private sector businesses, and notably those from higher value added industries that have potential to grow such as ICT & digital media, building technologies & low carbon construction and advanced manufacturing - and for focused up-skilling to meet the demands of the high growth businesses coming to the region²³.

²³ The second paper in this series, due to be completed in November 2010, will consider the skills needed to effect this transformational change and the key growth points, in terms of sectors, industries and geographical areas, that stand to benefit from increases in GVA and new job creation.

This transformational change will not happen via investment in skills alone - it will only occur the region's structural weaknesses are addressed and investment in the demand, supply and effective use of skills is combined with investment in other drivers of the economy including innovation, enterprise, inward investment, transport, sites and premises.

Full document information

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Description	This briefing paper considers the scale of the cuts in public sector activity being made by the government and assesses the extent to which the West Midlands, and different sub-regions and localities within the West Midlands, have become dependent on the public sector. We then identify the likely scale of public sector job losses across the West Midlands and their likely impact on local economies including private sector businesses.
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