Policy Assessment Model
Case Study 2 - Impact of public sector job cuts

Version 1.0 for publication

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1 Introduction

The Policy Assessment Model (PAM) is not a traditional forecasting tool. Whilst one of the inputs to the PAM is a standard regional economic forecast, the PAM integrates it with other economic and demographic datasets. It combines these to give us an understanding of the key relationships and how they impact on each other. Ultimately it provides a much more practical and useful understanding of the West Midlands than a standard economic forecast, which is purely based on historical trends as a predictor of the future.

The Policy Assessment Model (PAM) has been developed to model scenarios and policy options to help us understand the effect they have on economic and demographic factors within the West Midlands and its constituent local authority areas.

To illustrate how this works, we have used the PAM to look at how the impending public sector spending cuts may affect the West Midlands. In the recent budget the Government provided a forecast of the contraction of public sector employment over the next 6 years:

BUDGET FORECAST

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
General Govt average earnings growth	2.3%	0.8%	0.8%	3.1%	3.1%	3.1%
General Govt employment growth	-0.1%	-1.2%	-1.3%	-3.0%	-3.7%	-2.4%
General Govt employment level (millions, end of financial year)	5.53	5.47	5.39	5.23	5.04	4.92

To understand the potential impact on the West Midlands and its local authorities we have used the PAM to apply these forecasts to the three public service industries within the model:

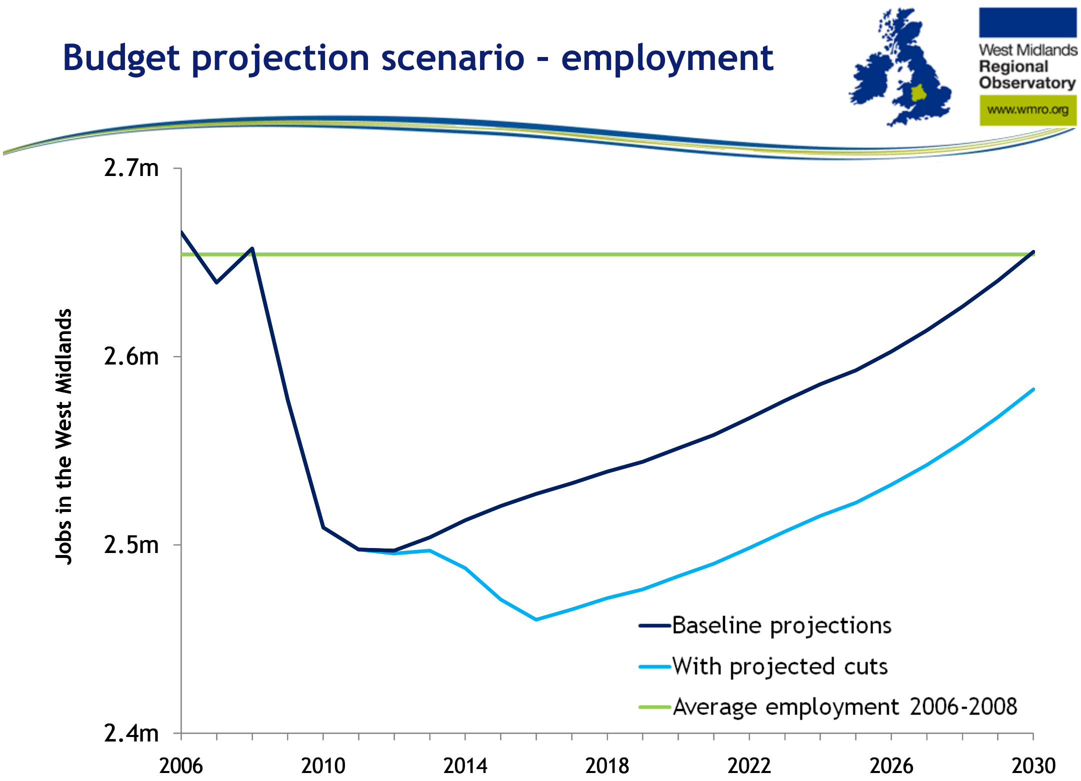
- Public Administration & Defense
- Education
- Health & Social Work

Whilst these industries are not entirely made up of public sector organisations, a large proportion of employment in them is publicly funded. The public sector makes up only a small minority of employment in other sectors included in the PAM.

2 Employment

2.1 West Midlands Analysis

The chart compares employment in the West Midlands under this example with the baseline projection, see Case Study 1. The baseline projects that employment in the West Midlands would recover to pre-recession levels by 2030. Applying the public sector contraction rates we can see that by 2030, the level of employment is projected to remain nearly 75,000 lower than pre-recession levels.

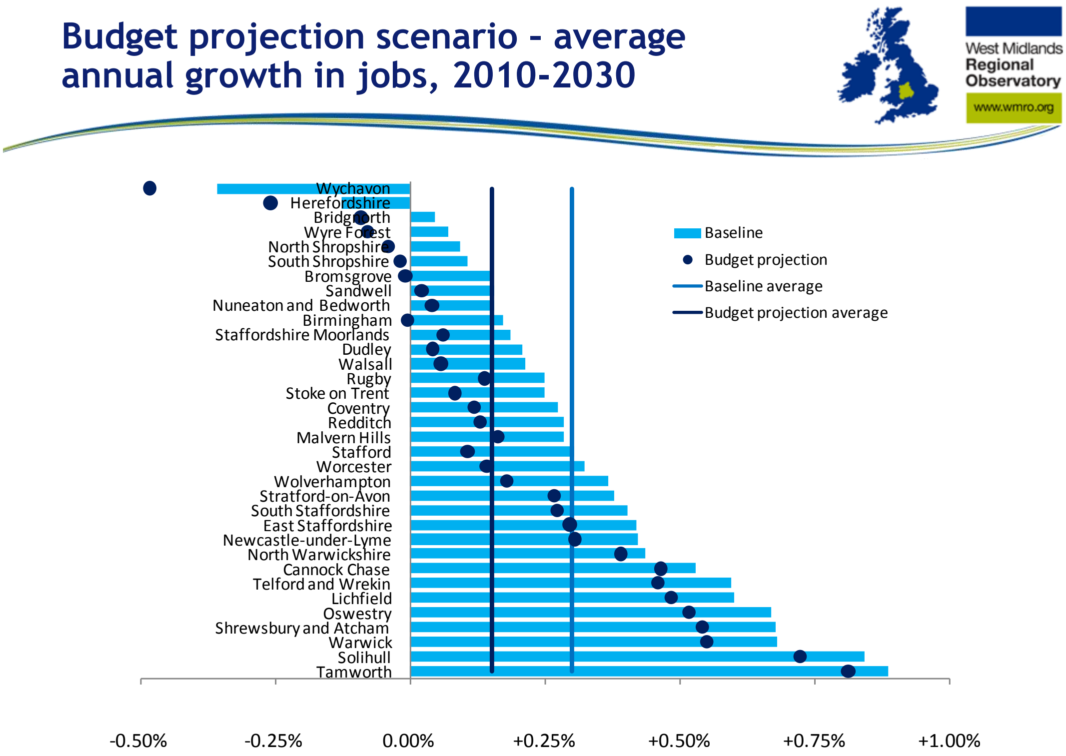


Under these assumptions, employment in the West Midlands is not forecast to recover to pre-recession levels until after the end of the time period covered by the PAM's projections, probably around 2035. Furthermore, these projections do not take into account the knock-on effects of spending cuts on jobs in the private sector.

2.2 Local Authority Analysis

We can use the PAM to see how the proposed cuts impact on the local authority areas of the West Midlands. Under the baseline scenario, there are differences between the annual average growth rates in employment projected for local authority areas. Stronger than average growth is projected in Solihull and Tamworth, whilst a contraction in employment is projected for Wychavon and Herefordshire.

The chart below shows the impact of applying the public sector cuts. It demonstrates that there will be an impact on all parts of the West Midlands. Solihull and Tamworth still experience strong, above average, growth rates and the impact on them is lower than elsewhere, reflecting their relatively low level of public service employment. However, under this scenario a total of eight local authorities, including Birmingham, are projected to experience a fall in employment over the next 20 years.

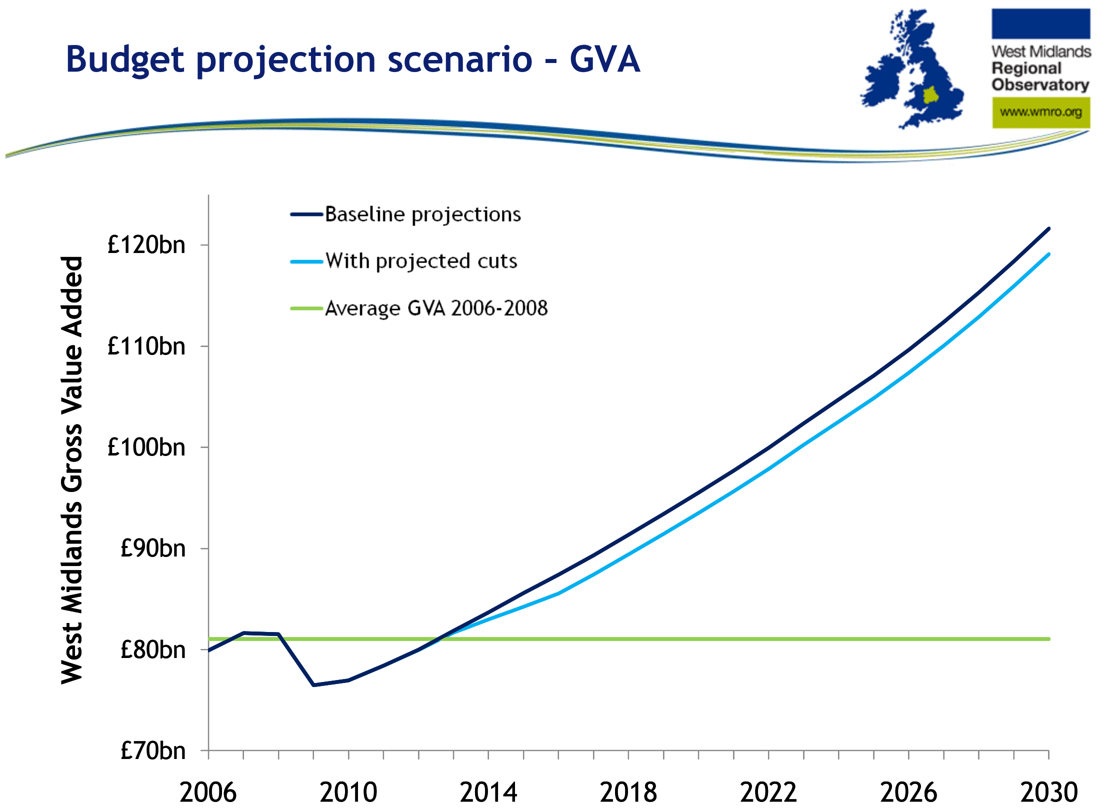


The greatest impact of the spending cuts is projected to be in places such as Birmingham, Stafford, Worcester and Wolverhampton. These local authority areas have amongst the highest shares of public service employment currently and many may struggle to generate the private sector growth needed to replace any jobs lost. At the other end of the scale, Rugby, North Warwickshire and Cannock Chase will see limited impacts, along with Tamworth and Solihull.

3 Gross Value Added (GVA)

3.1 West Midlands Analysis

Under the baseline projection the West Midlands is expected to see a relatively quick return to pre-recession levels of output. Under the public sector contraction scenario, the GVA of the West Midlands still grows but at a slower rate, particularly from around 2013 onwards. By 2030, this could cost the West Midlands around £2bn in terms of GVA.



3.2 Local Authority Analysis

Looking at how this affects the local authority areas, the average annual growth rate in the baseline projection shows stronger growth (the darker shaded areas) in Warwick, Solihull, Tamworth and Telford and Wrekin. Growth is weakest in Wychavon and Sandwell. Many local authorities are grouped around the average growth rate of just under 2.5%.

However, under the public sector contraction scenario, we can see that whilst value added growth is still strong in the same areas, there is greater variation in growth rates across the West Midlands.