

**EXETER CITY COUNCIL  
SCRUTINY COMMITTEE – ECONOMY**

**11 NOVEMBER 2010**

**IMPACT OF PUBLIC SECTOR SPENDING CUTS**

**1.0 PURPOSE OF REPORT**

- 1.1 To brief Members on issues raised, based on analysis of the impact of public sector spending cuts by South West of England Regional Development Agency.

**2.0 BACKGROUND**

- 2.1 The current coalition Government has stated its intention to make substantial cuts in public sector expenditure in order to reduce the national deficit. The Government has also stated the need to strengthen the private sector in order to support recovery from the recession and rebalance the economy away from what it sees as too great a reliance on the public sector and financial services.
- 2.2 The full details of the spending cuts are not yet clear after the publication of the Comprehensive Spending Review on 20 October. There are various forecasts of the impact of this on public sector employment with the Office for Budget Responsibility assessment that some 600,000 jobs could go across the country by 2016. Forecasts of consequent loss of private sector employment are similar in scale. An extensive reconstruction of the public sector is underway, and the marked reduction if not closure of many public sector organisations is anticipated. On the positive side, the actual figures could be less if the economy recovers significantly over this time. An over reliance on improvement in the international economic situation may not produce a strong enough recovery to benefit the South West in view of its economic structure.
- 2.3 This report summaries an analysis of the available evidence to date on the impact of public sector cuts across the region undertaken by the South West Regional Development Agency (SWERDA), using economic intelligence resources and comments from many organisations across the region. SWERDA state that overall 19% average costs in government departmental budgets hides the fact that the size of the reduction of business, communities, rural affairs and other development related spending of importance to the South West is likely to be much larger.

**3. ANTICIPATED IMPACT**

Public Sector Job Losses

- 3.1 Some 528,000 people work in the public sector in the South West, 21.2% of employees, and above the national average largely due to the concentration of armed forces and defence related activities.
- 3.2 Over the last ten years, the South West has seen the largest change in public sector employment across the country with an increase of more than 100,000 jobs, making the area particularly vulnerable to the planned cuts.

The SWERDA consider that although large urban centres are likely to see the greatest number of losses, smaller centres and more peripheral areas where private sector activity is weaker, and greater dependency exists on the public sector for employment and financial support, may feel the effects most. The largest urban centres may have sufficiently vibrant private sectors that can absorb some of the impact. Other urban areas such as Exeter, hosting county headquarters and having a higher reliance on the public sector for employment, may be more vulnerable to higher absolute levels of cuts.

The table below indicates the estimated percentage and numbers of employees in the public sector of Exeter and the neighbouring district councils.

Area	Employment (000's)	% of total employed
East Devon	8.1	19.4
Exeter	25.0	29.5
Mid Devon	4.1	16.7
Teignbridge	7.8	19.1
TOTAL	45.0	

Exeter has the highest proportion of employees in the public sector of all urban areas in the South West. Devon, including Plymouth and Torbay, has a total of 107,000 public sector workers.

- 3.3 A forecast by Local Futures suggests that the South West public sector share of jobs could fall by 2.4% by 2016, with Exeter and Torbay forecast to fall by 3 - 3.25% and Taunton between 2.25 - 4%. The RDA report also draws attention to the importance of understanding the potential demography of public sector job cuts. The report refers to the Office of National Statistics analysis of national public sector employment in 2009 where:-

- 65.5% of public sector workers were female (41% of private sector)
- 32.7% of employed women worked in the public sector (15.1% of employment)
- 14.6% of public sector workers were long term disabled (12.8% of private sector)
- 29.5% of public sector workers were part-time (28.5% of private sector)
- 42.5% of public sector workers were over 45 years old (36.1% of private sector)
- 64% of public sector workers are in “professional”, “associate professional and technical” and administration and secretarial” positions (32% of private sector)

The report concluded that large scale cuts in public sector employment could disproportionately hit women, disabled and older workers. It is likely to affect the employment structure, particularly in more rural areas, and indeed in Exeter with there being at least in the short term fewer opportunities for local people to access professional jobs or some of the best quality employment likely to be available. The levels of income and expenditure in the local economy will understandably be reduced.

- 3.4 The South West has high levels of defence-related employment and any cuts in defence spending could have a significant impact, and not just in the key centres of defence activity. Any cuts are expected to be compounded by the effects on the supply chain of companies across the South West and across other sectors than defence.

- 3.5 Price Waterhouse Coopers (PwC) published an economic analysis of the impact of spending cuts and tax rises in early October 2010. PwC estimate that some 81,000 public and private sector jobs may be lost in the South West by 2014/15 as a result of the cuts. PwC also undertook an estimate of the local impacts by using forecast national spending changes by industry and applying them to local jobs data linked to the individual industrial and occupational make up of three cities – Leeds, Hull, and Exeter. PwC found a noticeable difference in terms of the relative impact of the cuts between the three cities. They concluded that whilst Leeds as the largest city stands to have the greatest absolute loss of jobs (21,500), its larger share of private sector activity helps to cushion the impact. Hull is seen as losing some 8,100 private and public sector jobs and Exeter some 6,250 jobs over the next 4 years. It will be important to try and obtain a picture of the impact and implications of the spending cuts on public sector organisations in the city over the coming months.
- 3.6 A significant concern has been raised that during the recession significant financial and other advice was available to help companies going through redundancies, and to provide support to individuals to retrain and find new employment. With cuts announced and expected, levels of support to the ex-public sector employees are going to be greatly reduced, and will most likely be less than that available to similar private sector employees during the recession.

#### Capital spending

- 3.7 In addition to job losses, public sector cuts will also effect capital spending i.e. investment in transport, houses and schools. The Department of Transport has stopped progressing approval of all capital schemes until after the Comprehensive Spending Review announcement on 20 October 2010, and at the time of writing specific decisions are still awaited. Many capital programmes will have effectively already been delayed by at least six months, delaying the economic benefits locally as well as nationally in some cases.
- 3.8 The specific scheme of major importance to Exeter awaiting a decision is the planned M5 junction 29/30 improvement which is the final piece of infrastructure required to enable the complete package of important strategic developments to the east of Exeter – the Exeter and East Devon Growth Point, including Cranbrook, the Science Park, Skypark, and intermodal freight terminal. At least 10,000 jobs associated with future phases of Skypark and the Science Park could be at risk. The proposed South Devon Link Road improvements important to Torbay's economy are also caught up in the delay, a project which is forecast to enable the creation of 7,700 jobs.
- 3.9 The National Housing Federation recently reported that 85,000 planned homes will not be built in England following the abolishment of regional house building targets and reduction in funding support measures. It is claimed that the region hit hardest is the South West, where some 60,000 new homes have been cancelled and further cuts may follow. It is argued that the reduction in house building potentially undermines the robustness of growth strategies, seen as integral to meeting the development needs of key urban areas, such as Exeter, in supporting the stability, strengthening and diversification of the economy, and promoting better quality employment opportunities.

- 3.10 There have also been announcements scaling back the Building Schools for the Future programme and new spending on physical re-generation and economic development at a regional level which may well have an impact on economic recovery.
- 3.11 Capital expenditure by Local Authorities is likely to fall by 30% by 2014-15 with consequent impact both on developments and contractors.

#### Reduced Government Procurement

- 3.12 The RDA report estimates that the effect of reducing Government spending by 20% could result in loss of an estimated 116,000 jobs and £4.2 billion in GVA across the South West economy. Of these 86,000 jobs would be lost in the public sector and the remainder consequently across the private sector in distribution, retail, hotels and business services sectors. The local South West economy has a high proportion of small businesses. It is estimated that in the South West some 28% of small firms are reliant on public sector contracts.

The RDA report points out that some caution is required with the analysis in that the cuts are likely to be over a period of time and that the private sector will hopefully “exploit opportunities that open up as the public sector restructures”

#### Welfare Reform

- 3.13 Recent announcements on welfare reform will have an impact on residents. A single “universal credit” is to be created, scrapping the existing income support, disability benefits, tax credits, jobseeker’s allowance and housing benefits phased in over two parliaments. The withdrawal of child benefit payments for higher rate tax payers has also been signalled. The number of Exeter residents receiving the following range of benefits is summarised below:

Housing Benefit (July 2010)	8,750
Job Seekers Allowance (Sept 2010)	1,841
Incapacity Benefits (Feb 2010)	4,710
Lone parent (Feb 2010)	990
Carer (Feb 2010)	710
Other income related benefits (Feb 2010)	280
Disabled (Feb 2010)	820

- 3.14 There is an intention to improve incentives to work and tackle benefit dependency while protecting those who are “genuinely unable to work”. There will be back to work support through the Work Programme for the long term unemployed and people with disabilities.

#### Rural Areas

- 3.15 Exeter and other such centres have some economic interdependence with the surrounding hinterland. The RDA report suggests that public spending cuts present a significant barrier to rural economic recovery. To some extent public sector employment has helped some rural areas be more resilient during the recession, but as cuts are implemented the sources of that resilience will be at risk.

- 3.16 Reliable and fast broadband provision is essential to a competitive business environment, particularly in rural areas, the absence of which is a potential barrier to investment. The Government's universal service commitment on broadband provision has been deferred to 2015, although some areas of the UK have been allocated funding support. As well as the wider rural area, Exeter does not enjoy 100% access to high speed broadband.

#### Further and Higher Education

- 3.17 In brief, for 16 to 19 year olds the Spending Review will support further increases in numbers in further education and continue to move the compulsory age of participation to 18. The financial support for lower income families through the Education Maintenance Allowance will be restricted to the most disadvantaged. Free further education training is to be removed for a first full level 2 and above qualification for over 25 year olds. Student loans may be available, repayable dependent on the learner's income.
- 3.18 Higher Education institutions are major employers and contribute to local economies across the South West. Exeter University has already invested more than £140 million in new buildings and facilities in the last five years and a further £130 million of projects are currently under construction. The Government believes that there must be a shift away from public spending "towards greater contributions from those that benefit most, and who can afford to pay". The stated intention is to secure more choice whilst delivering better advice and information to learners. Reduction in student numbers, staff and procurement is raising areas of concern about the ability of this sector to maintain its national and international competitiveness against a background of continued major investments by other leading nations, particularly in science research based activity related to business performance, and potential new commercial opportunities for generating new and high growth employment. Members will have heard a view on these issues from the University of Exeter at Committee, as one of the key contributors to the current and future economy of the city.

#### Loss of skills, knowledge and capacity

- 3.19 The local economy, and indeed the South West, has had to face difficult and indeed emergency situations and most recently the economic slowdown. Exeter and the surrounding areas have time and again used the strong relationships and networks of individuals and organizations in both the private and public sector to address these challenges, as well as to take advantage of opportunities which have arisen.

The reduction and indeed potential removal of some of this capacity may weaken the ability of the city and the area to deal with the impact of the cuts, or more importantly to be able to respond to the recovery when it comes. The transitional arrangements for the proposed Local Enterprise Partnership to replace the RDA will be very important in this regard. A White Paper is expected before the end of the year setting out the Government's strategy for promoting local economic growth.

#### **4. RECOMMENDED that**

- (i) the potential impact of cuts in the public sector on the Exeter economy be kept under review and that

- (ii) key public sector employers be invited to outline to Scrutiny Committee an assessment of their organisation's financial "stress" tests, and the level of risk to the Exeter economy.

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**Local Government (Access to Information) Act 1985 (as amended)**

Background papers used in compiling this report:-

1. "Impact on public sector spending cuts" paper published by the South West Regional Development Agency – September 2010
2. "Sectoral and regional impact of the fiscal squeeze" published by PwC October 2010