Work audit

PUBLIC SECTOR JOB CUTS REVISITED

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Just over a year ago the Government established the Office for Budget Responsibility (OBR) as an independent 'fiscal watchdog'. The OBR – which operated on an interim basis prior to becoming a statutory public body in April 2011 – is responsible for producing the official five-year forecasts for the UK economy and public finances previously conducted by HM Treasury and, on the basis of these forecasts, assesses whether the Government has a better than 50% chance of achieving its stated fiscal targets.

The OBR forecasts are published twice yearly, at the time of the Budget in the spring and the Chancellor's autumn statement, and include projections of likely developments in the labour market, covering public and private sector employment, unemployment and average earnings. These labour market projections are a particularly welcome feature of the OBR's reports given that in recent decades HM Treasury has been generally reluctant to provide what were often considered 'politically sensitive' forecasts of unemployment.

As with any economic or labour market forecasts, those published by the OBR are best used as a guide and starting point for discussion and therefore should not be treated as a statement of fact about the future course of events. This is particularly true given the considerable uncertainty at present surrounding the outlook for the global, European and UK economies, an uncertainty wisely acknowledged by the OBR itself. Consequently, in publishing its central forecasts the OBR is careful to stress the possibility of other outcomes, sometimes presenting alternative hypothetical scenarios reflecting different assumptions to those underpinning the central forecast, and of course updates its forecasts in the light of changing economic or policy circumstances. For example, each OBR report since the first in June 2010 has lowered its near-term forecast for UK economic growth.

Despite this, some government ministers have tended to gloss over any caveats and quote aspects of the OBR forecasts as un-contestable statements of what will happen in the future rather than forecasts of what might happen. As a result, the Government has at times made crude political use of the OBR forecasts to buttress its particular economic policy narrative and thus close off alternative viewpoints.

This has been especially noticeable in relation to the OBR's projections of public sector job losses in the current Parliament, which are not only relatively modest compared with some alternative estimates – including those made by the CIPD in 2010 – but also indicate that public sector job losses will be largely back-end loaded and, against the current backdrop of muted demand for staff in the private sector, thus have a relatively limited near-term impact on the overall national or local labour markets.

However, as this *Work Audit* highlights, with official statistics charting what has actually happened in the past year at the very least already showing a rather different outcome for the timing of public sector job losses than that indicated by the OBR, there is a case for supplementing the forecast with additional information obtained directly from public sector organisations. Moreover, heavier than expected public sector job losses when private sector job creation appears to be stalling raises questions about the wisdom of public sector job cuts at the present time.

The OBR's public sector employment projections

The OBR projects change in 'general government employment' (GGE). GGE is the total of staff employed in central government (including the NHS) and local government. This is lower than total public sector employment as measured by the Office for National Statistics (ONS) because GGE excludes people employed in public corporations plus employees of those banks taken into public ownership in the wake of the 2008 financial crisis.

The OBR projects GGE on the basis of what it refers to as 'top-down stylised assumptions' of growth in the total public paybill (taking into account a two-year freeze in basic pay settlements for most public employees) and growth in non-investment spending on the public services as outlined in the Government's expenditure plans.

At the time of the Government's Emergency Budget in June 2010, the OBR projection was that GGE would fall by 490,000 between the end of financial year 2010–11 and the end of financial year 2014–15. This estimate was based on the Government's broad public expenditure plans – which were later set out in detail in the 2010 Comprehensive Spending Review (CSR) – but excluded the impact of spending cuts of approximately £6 billion within 2010–11 and additional spending cuts pencilled in for 2015–16. Including the 2015–16 cuts raised the OBR's June 2010 projection for the fall in GGE to 610,000. The OBR in addition implied that GGE would fall by 5,000 within 2010–11.

However, subsequent OBR forecasts in November 2010 and March 2011 revised down the initial projection. The November 2010 projection was a fall in GGE of 330,000 rather than 490,000 between 2010–11 and 2014–15, the figure including 2015–16 falling from 610,000 to 410,000.

Of the OBR's 160,000 downward revision to its initial projection to 2014–15, 30,000 is due to what the OBR describes as 'methodological refinements', the remainder to changes to the Government's spending plans as finalised in the CSR, which saw smaller cuts in departmental spending as a result of the Chancellor's decision to instead cut more deeply into the welfare budget. The latest projection (published in March 2011) was also slightly lower, indicating a fall in GGE of 310,000 between 2010–11 and 2014–15, rising to 390,000 by 2015–16 (Table 1).

While substantial and obviously painful for those individuals, organisations and local areas directly affected, a loss of public sector employment on this scale (a reduction of around 7% for the entire forecast period) is unlikely to have a significant impact on the UK labour market overall. Indeed, the total projected fall in GGE is similar to the typical annual rate of labour turnover in the public sector and thus likely to be relatively easy to manage through so-called 'natural wastage' of staff without need for a considerable number of redundancies.

Moreover, the OBR forecast indicates that the fall in GGE is heavily back-end loaded. Less than 10% of the projected reduction occurs between 2010–11 and 2012–13, a period in which most economic forecasters currently expect relatively subdued job creation in the private sector and some increase in unemployment. Instead more than 60% (190,000) of the projected fall in GGE occurs in the single fiscal year 2014–15, by which time it's assumed the economy will be growing at a far healthier rate and creating enough private sector jobs to more than offset public sector job losses, thereby enabling unemployment to fall.

This overall pattern is reflected in the OBR's broader labour market forecast, which suggests that total employment in the UK will be broadly flat between 2010 and 2011 before picking up steadily from 2012, with private sector employment increasing by 1.3 million between 2010–11 and 2015–16. Unemployment meanwhile rises to a peak of 8.2% in 2011 and then starts to fall, reaching 6.4% by 2015.

Limitations of the OBR's projections

However, it remains to be seen if the OBR projections prove to be correct. And there are alternative projections. The total reduction in GGE initially projected by the OBR in June 2010 was broadly in line with the corresponding estimate of a 725,000 fall in 'public sector employment' in the period 2010–11 to 2015–16 published by the CIPD after surveying and consulting HR managers in public sector organisations (including the public corporations). But subsequent OBR projections have opened up a considerable gap between the 'official' view about the outlook for public sector jobs – since government ministers use the OBR as the basis for their policy narrative – and the CIPD view.

The difference between the two projections for the period to 2015–16 is now larger than the total loss of GGE the OBR forecasts for the period to 2014–15. Moreover, the OBR and the CIPD also differ in that the CIPD sees little

Table 1: The OBR projection for general government employment (2010–11/2015–16)

	(1) Growth in public service spending (%)	(2) Growth in paybill per head (%)	(3) Growth in GGE (1 minus 2) (%)	'000s
2011–12	0.7	1.2	–0.5	–20
2012–13	0.7	0.8	–0.1	–10
2013–14	1.5	3.1	–1.6	–90
2014–15	–0.3	3.1	–3.4	–190
2015–16	1.4	3.1	–1.7	–80

Source: OBR, March 2011 Economic and fiscal outlook, report and accompanying tables sign that the reduction in GGE will be heavily back-end loaded. HR managers in the public sector, for example, especially those in local government, report that they are under pressure to front-load job losses as a result of already tight spending constraints.

While it is possible to dismiss this difference by concluding that the OBR's top–down methodology for projecting change in public sector employment has greater analytical credibility than that of the CIPD, it is also necessary to highlight the limitations the OBR recognises in its own methodology: *'All these projections are inevitably subject to a large degree of uncertainty: they are based on a set of stylised assumptions and do not reflect departmental paybill plans or policy.'* Similarly, the OBR also notes that its own top–down approach is not ideal but merely the best available *'until the government obviates the need for a forecast by publishing specific workforce plans'*.

An obvious weakness of stylised assumptions is that they may not adequately account for the precise way in which spending cuts are targeted within organisations or the extent to which organisations choose between simple cost-cutting strategies or instead attempt thoroughgoing restructuring of workplace practices. Similarly, the use of planned growth in expenditure on the public services may not adequately identify the degree to which efficiency savings impact on staffing. For example, a sector such as the NHS, which is ostensibly ring-fenced and protected from real spending cuts, is nonetheless required to substantially reduce back-office managerial and administrative staff.

What the latest ONS data show

Ultimately, of course, the true test of what is happening to public sector employment will be shown in official outturn statistics from the ONS's quarterly public sector employment survey (QPSES). It's far too early in the OBR's projection period to come to a definitive view of how far the QPSES data correspond with the projection, but available data do raise some questions.

According to the QPSES, the level of GGE in the UK was 5.76 million at the end of the financial year 2009–10 – that is, first quarter 2010, just prior to the 2010 General Election, which saw the Coalition Government take office – but fell by almost a quarter of a million to 5.52 million by the end of the first quarter of financial year 2011–12 (that is, second quarter 2011, Table 2). With the private sector adding more than half a million jobs during the corresponding period, the share of total public sector employment in total employment fell from 21.8% to 20.7%.

GGE fell by almost 140,000 during the Government's first year in office and at the end of the financial year 2010–11 was already 40,000 lower than the OBR expected when it made its most recent projection at the time of the March 2011 Budget. If one were to simply add the actual fall in GGE to the current OBR projection for the period from the start of the financial year 2011–12, the implied loss of GGE between 2010–11 and 2015–16 would be more than half a million (roughly 530,000).

However, the scale of the loss of GGE since the start of financial year 2011–12 (a fall of 104,000 in the second

Table 2: Change in employment by sector classification, 2010 Q1 to 2011 Q2 (UK, '000s, seasonally adjusted)

	(1) Central govt (inc NHS) '000s	(2) Local govt '000s	(3) GGE (1+2) '000s	(4) All public sector '000s	(5) Private sector '000s
2010 Q1 – 2011 Q1	–41	–97	–138	–157	+534
2011 Q1 – 2011 Q2	–47	–57	–104	–111	+41
2010 Q1 – 2011 Q2	–88	–154	–242	–268	+575
% CHANGE 2010 Q1 – 2011 Q2	–3.1	–5.3	–4.2	–4.3	+2.5
Total at 2011 Q2	2,756	2,767	5,523	6,037	23,132

Source: Office for National Statistics

quarter of 2011) is itself five times larger than the OBR projection for the entire financial year and a third of the total projected fall for the period to the end of the current Parliament. Local government accounts for more than half (55%) of the fall in GGE in the second quarter of 2011, with public administration (down 43,000), the NHS (down 26,000) and education (down 16,000) the three biggest job shedders.

Even assuming this large quarterly fall is the result of some unusual one-off bunching of public sector job cuts and that there were no further fall in GGE during this financial year, in the absence of any subsequent revision to the QPSES data the outturn for GGE in 2011–12 would be 80,000 lower than the current OBR forecast. Holding the OBR projection constant for 2012–13 onward, the implied loss of GGE between 2010–11 and 2015–16 would be 610,000. Interestingly this is not only much closer to the scale of public sector job losses implied by the 2010 CIPD projection, but also exactly the same as the initial OBR projection published in June 2010.

What should the Government do?

The emerging ONS data clearly raise the possibility that the final toll of public sector job losses will prove to be larger than currently projected by the OBR, leastways without some change in government policy, such as an extension of the public sector pay freeze into 2013–14 and/or beyond (at present the OBR assumes annual average public sector pay settlements will rise to 2.7%, in line with those in the private sector, once the pay freeze ends). But even if this is not the case and it merely turns out that a greater part of the fall in public sector employment is front-end loaded than the OBR projects, there are potentially significant implications for policy since front-end loaded job cuts are falling in a period of muted and uncertain growth and weakening conditions in the labour market.

In order to provide greater clarity to the emerging situation, the CIPD has repeatedly recommended that alongside the OBR projection the Government should at the earliest opportunity publish a comprehensive administrative audit of workforce reductions being planned and/or being implemented across the public sector. Ideally, this would include information on the various ways in which reductions are being undertaken, whether through compulsory or voluntary redundancies, recruitment freezes or natural turnover.

A comprehensive audit of this kind would help inform understanding about the scale and phasing of public sector job cuts and improve assessment of the possible impact on unemployment at the national, regional and local levels. However, in the light of what the QPSES data are already showing, the CIPD now also recommends that the Government call a halt to public sector job cuts while the economy and labour market remains in the current fragile condition.

Especially worrying is that (as Table 2 also shows) public sector job losses in the second quarter of 2011 far exceeded net private sector job creation, which suggests that the slowdown in economic growth since the autumn of 2010 is gradually sapping the strength of those parts of the economy that were creating jobs in the initial phase of the economic recovery. Given this it is likely that in its next forecast the OBR will state that it expects total UK employment to fall in the financial year 2011–12, with unemployment rising to a higher peak than forecast at the time of the Budget.

Public sector job cuts in this context would be a false economy – exacerbating weakness in the labour market, adding to unemployment and in turn hindering rather than helping the task of fiscal deficit reduction. A more sensible course would be to delay all further public sector job cuts to the end of this Parliament and, if necessary, into the next, thereby enabling them to be more easily absorbed without nasty macroeconomic side effects. The Government's plan for growth must rightly contain measures to stimulate private sector job creation but ministers should also avoid the own goal of cutting public sector jobs at a time of high and rising unemployment.

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