

# Managing Change: Responding to reduced public expenditure in Yorkshire and Humber



## Annex B: Defining the Public Sector Definitions

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### Public sector employment and the National Accounts

Under ONS guidelines and the National Accounts system<sup>1</sup>, the public sector is defined not by public financing or by ownership but rather by where control lies. These guidelines are used to produce the [ONS Sector Classification Guide](#), an exhaustive list of all economic units engaging in transactions in goods and services and financial assets, and the Public Sector Employment (PSE) dataset, which is available only at regional and national level.

#### Box A: Public Sector Employment dataset

The ONS estimates of public sector employment (PSE) are compiled from a multiplicity of administrative and survey information from public sector organisations.<sup>2</sup>

In line with the National Accounts, Public Sector Employment (PSE) dataset focuses on **employees who have an employment contract and are being paid for by a public sector organisation**.<sup>3</sup> It therefore includes those employed by public corporations such as Royal Mail, British Nuclear Fuels, Northern Rock, Bradford and Bingley and RBS **but not those employees who are paid for by the government but not directed by it**. The PSE dataset, therefore, excludes a fairly significant proportion of workers who are commonly perceived to be public sector employees – including GPs, university staff, further education staff, agency and contract workers.

According to PSE data, 5,594,000 people or 19.5 per cent of the workforce had employment contracts with and were being paid by public sector employers in the fourth quarter of 2008.<sup>4</sup> Reflecting the exclusion of a significant numbers of workers commonly perceived to be public sector employees, this is substantially lower than Labour Force Survey and Annual Business Inquiry figures (see below) which focus on the sector in which an individual is employed and therefore provide much more insight into the likely impacts of public spending reductions.

### Public sector employment at local level

There are two datasets – the Labour Force Survey and the Annual Business Inquiry – that offer insight into levels of public sector employment at local level.

#### Box B: Annual Population Survey

The Annual Population Survey (APS) combines results from the Labour Force Survey (LFS), a quarterly sample survey of households living at private addresses in Great Britain, and the English, Welsh and Scottish Labour Force Survey boosts.

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<sup>1</sup> National Statistics (2008) National Statistics Code of Practice: Protocol on Statistical Integration and Classification  
<http://www.ons.gov.uk/about-statistics/user-guidance/lm-guide/sources/compound/pse/index.html>

<sup>2</sup> National Statistics (2005) Public Sector Employment

<sup>4</sup> ONS (2009) Regional Analysis of Public Sector Employment, Economic & Labour Market Review 3:9

*Cont.*

The quarterly Labour Force Survey provides the most reliable measure of the number of people in employment in Great Britain. It includes the self-employed, people employed by private households, people on government training schemes and armed forces personnel living in private households (but not those living on armed forces bases).<sup>5</sup> Data is available at national, regional and local authority level but sectoral information is limited to broad based industrial sectors.

### **Box C: Annual Business Inquiry**

The Annual Business Inquiry (ABI) samples approximately 78,000 businesses drawn from the Inter-Departmental Business Register (IDBR) each year. The sample is stratified by industry using Standard Industrial Classification SIC 2003, and by six size bands.

The ABI does not cover the agricultural sector, jobs in private households, jobs in organisations not held on the IDBR, jobs in non-UK businesses, homeworkers, the self-employed and HM Forces. In addition, the December reference date means that employment data are heavily influenced by seasonal factors.<sup>6</sup> As such, it is the best source of information about the number of jobs available rather than the number of people in employment, which is better measured by the Labour Force Survey (LFS).

The ABI remains the most comprehensive and reliable survey of UK businesses. It is also the only employment survey that provides detailed information about the industrial composition of employment at national, regional and local authority level.

In both the Labour Force Survey and the Annual Business Inquiry public sector employment is typically defined as employment in the broad industrial groups of public administration and defence, education and health. Neither survey distinguishes between public and private education and health services, so employment in privately provided education and health services is counted as public sector employment.

The differing reference bases of the two surveys produce different figures for the total number of public sector employees in Great Britain and the proportion of the workforce employed within the public sector in 2008:

- **Annual Population Survey**<sup>7</sup>: 8,073,900 or 28.6 per cent of the British workforce were employed in public administration and defence, education and health;
- **Annual Business Inquiry**: 7,208,488 or 27.2 per cent of the British workforce were employed in public administration and defence, education and health.

The broad public administration and defence, education and health definition provides useful insight into levels of public sector employment. However, the standard definition includes some activities (veterinary

<sup>5</sup> [http://www.statistics.gov.uk/downloads/theme\\_labour/LFSandWFJ.pdf](http://www.statistics.gov.uk/downloads/theme_labour/LFSandWFJ.pdf)

<sup>6</sup> <http://www.ons.gov.uk/about-statistics/user-guidance/lm-guide/sources/business-surveys/abi/index.html>

<sup>7</sup> The Annual Population Survey is based on the Labour Force Survey

activities and driving schools) that are predominantly privately funded and provided; and excludes others (such as recycling and the operation of libraries, museums and arts facilities) that are predominantly government provided or funded and are therefore vulnerable to public spending cuts.

### A new definition of public sector employment

For the purpose of examining public sector employment trends in Yorkshire and Humber over the last decade The Work Foundation has devised a more nuanced definition that focuses on **employment in activities and functions that are predominantly funded by the public purse**. In conjunction with Local Government Yorkshire and Humber (LGYH), these have been identified at 4-digit SIC (2003) level in the Annual Business Inquiry. Publicly funded activities and functions have been grouped according to primary providers as set out in Box D below.

#### Box D: Publicly funded activities – Annual Business Inquiry

##### Central government and arms length bodies

- 7512 : Regulation of the activities of agencies that provide health care, education, cultural services and other social services excluding social security
- 7513 : Regulation of and contribution to more efficient operation of business
- 7514 : Supporting service activities for the government as a whole
- 7521 : Foreign affairs
- 7522 : Defence activities
- 7523 : Justice and judicial activities
- 7530 : Compulsory social security activities

##### Local authorities, National Parks Authorities and local services

- 3701 : Recycling of metal and scrap waste
- 3702 : Recycling of non-metal and scrap waste
- 7511 : General (overall) public service activities
- 8531 : Social work activities with accommodation
- 8532 : Social work activities without accommodation
- 9232 : Operation of arts facilities
- 9251 : Library and archive activities
- 9252 : Museum activities and preservation of historical sites and buildings
- 9253 : Botanical and zoological gardens and nature reserve activities

##### Emergency services

- 7524 : Public security, law and order activities
- 7525 : Fire service activities

##### Health

- 8511 : Hospital activities
- 8512 : Medical practice activities
- 8513 : Dental practice activities
- 8514 : Other human health activities

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### **Education**

- 8010 : Primary education
- 8021 : General secondary education
- 8022 : Technical and vocational secondary education
- 8030 : Higher education
- 8042 : Adult and other education not elsewhere classified

Despite the greater level of insight into the range of sectors likely to be affected by reductions in public spending, this definition of the public sector remains imperfect. It is important to note three caveats in particular:

- The Annual Business Inquiry does not distinguish between central and local government employment, so the distinctions drawn between the two categories in this report for LGYH are somewhat artificial.
- The Annual Business Inquiry excludes working proprietors, the self employed, government supported trainees and HM Forces.<sup>8</sup> Given the importance of military employment and military spending in Yorkshire this represents a significant limitation
- Our analysis continues to include privately provided education and health services in the public sector and to exclude many publicly funded activities such as IT, catering and cleaning services that may have been sub-contracted or outsourced to private sector businesses.

This means that, whilst the figures used the report provide important insights into Yorkshire and Humber's relative dependency of on the public sector and the role that the expansion of publicly funded activities has played in driving overall employment growth over the past decade, they are **likely, if anything, to understate the true size and impact of the public sector.**

### **Box E: A note on public sector employment figures in the report**

The Work Foundation's definition of the public sector is used for both analysis of public sector employment trends over the past decade (Section 2) and the scenarios for public spending reductions modelled by Oxford Economics (Section 4) of the main report.

Analysis of trends over the past ten years in Section 2 excludes working proprietors, the self employed, government supported trainees and HM Forces, however, as these are not included in the Annual Business Inquiry. Figures examining trends between 1998 and 2008 in Section 2 **do not compare directly**, therefore, with the Oxford Economics forecasting for 2008 to 2017, which, to allow insight into the full range of impacts of public sector reductions across all sectors of the regional economy, include working proprietors, the self employed, government supported trainees and HM Forces.

<sup>8</sup> ONS (2009) Summary Quality Report for Annual Business Inquiry Part 1 (ABI/1)

### Modelling the next 10 years

The Work Foundation commissioned Oxford Economics to model two scenarios for public spending reductions to understand how different levels of cuts might impact on Yorkshire and Humber.

#### Baseline scenario

The Oxford Economics baseline scenario is based on Treasury forecasts for government finances published in the 2008 Pre-Budget Report, the 2009 Budget and the 2009 Pre-Budget Report. Under this scenario gross investment and total managed expenditure (TME), excluding debt interest, are expected to fall over the short term with public sector net borrowing consequently falling to £40bn by 2017.

#### Deeper cuts scenario:

The deeper cuts scenario is based on Oxford Economics' analysis of public finances and the need to reduce public debt and comprises a tighter policy stance where both current and capital spending are reduced over the forecast period. Reductions in spending are assumed to start in 2010/11, current spending is cut by a further £22bn by 2017 and public sector net borrowing falls to £10bn by 2017.

#### Box F: The Oxford Economics modelling approach

Oxford Economics use demand-based modelling techniques, the most common form of forecasting used to predict economic growth at a regional/sub-regional level. This type of modelling relies on understanding of the macroeconomic context, exploring past trends and applying key economic relationships.

Scenario work is based upon determining sensible 'alternate level' forecasts, plausible in a local, national and international context. Underlying assumptions are primarily macroeconomic ones, such as oil prices, exchange rates and inflation. At a local level the assumptions are essentially: 1) that basic economic relationships (ie links between people and jobs, total employment and construction employment, spending and retailing) are not broken over the forecast period; and 2) that supply side factors (namely skills, land, infrastructure and environment/legislation) remain unchanged in relative terms.

The baseline model reflects a 'policy off' stance. Rather than speculating about the future success or likely delivery of government policies, Oxford Economics focus on macroeconomic trends and pick up potential policy impacts through scenario modelling.

Modelling is based on the Annual Business Inquiry and The Work Foundation's definition of the public sector (publicly funded activities), but also includes the self-employed, HM Forces and people on government training schemes. This means that, as set out in Box E above, the figures examining trends in public sector employment in Yorkshire and Humber over the last decade (1998-2008) in Section 2 and the Oxford Economics scenario forecasts for 2008-2017 in Section 4 do not compare directly.

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