Deprivation and public sector reliance in the South East

A briefing paper from
South East England Councils

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South East England Councils
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South East England Councils is a membership organisation representing the democratic voice of all tiers of local authority.

The SEEC area covers 74 local authorities in Berkshire, Buckinghamshire, East and West Sussex, Hampshire, Isle of Wight, Kent, Oxfordshire and Surrey.
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1. Introduction & key issues

1.1 Many coalition government policies are designed to cushion the areas most affected by public service job losses. SEEC recognises this need, providing the areas most in need are accurately targeted. However, indications suggest **widespread inaccurate perceptions of the South East as universally wealthy and having low levels of public sector employment**. These misconceptions have potential to prevent the South East achieving fair access to much-needed funding in the coming years.

1.2 The South East helps support spending in the rest of the country by contributing more to the Treasury each year than is spent on public services across the area. In 2006-7 the South East made a net contribution of almost £18 billion[1], while London and East of England also made net contributions but at a much smaller scale. **All other areas of the country received more in public spending than they contributed.** The 'subsidy' generated by the South East is critical as it helps fund public spending in other parts of England.

1.3 In a speech in late 2010 Business & Enterprise Minister Mark Prisk said it was important to promote private sector growth and tackle the large imbalance in the economy between the greater South East and the rest of the country. Government direction clearly remains focused on other areas 'catching up with the South East'. This policy seems set to continue despite Mr Prisk acknowledging that over the past 11 years the economic gap between the South East and the rest of country has not changed, even though RDAs spent £19 billion trying to narrow the gap. SEEC believes that **pegging back our economy while other economies catch up will damage both the public purse and the UK's global competitiveness.** It also ignores the fact that potential returns on public investment – for example in private sector job creation – can be significantly higher in the South East.

2. Deprivation, underperformance & underfunding

2.1 The fact that parts of the South East are relatively prosperous overshadows data showing **a very large number of South East residents – approximately 500,000 people – live in areas that rank within the 20% most deprived areas in the country.**[2] The large population of the South East often means our figures are dismissed as a relatively small percentage of our population – but **in absolute numbers our residents in deprived areas are equivalent to some 20% of the entire North East population**. Deprivation is concentrated in coastal areas like Margate, Hastings and urban South Hampshire, but there are also significant numbers in areas such as Slough, Oxford, and Milton Keynes.

2.2 Looking at deprivation data in more detail reveals a total of **850,000 South East residents live in the 20% most income deprived areas** in the country. Over **240,000 South East children live in income deprived households**, compared to 122,500 children in the North East and 158,900 children in the East Midlands. The story is similar for older people – the **South East has 230,000 over 60s in income deprived households**, compared to 131,200 in the North East and 161,400 in the East Midlands.

2.3 Deprivation is not evenly spread across the South East as there are high variations in economic performance. **Some parts of the South East have economic profiles closer to the North East than other areas of the South East**. For example 2.16 million people live in Kent, Medway and East Sussex, similar to the 2.56m population of the North East (2007 figures) and both areas deliver GVA per head[3] below the national average. In Kent, Medway and East Sussex GVA was £15,766 (78.2% of national average) compared to the North East's £15,460 (77.5% of national average). In both areas the intensity of the economic, social and infrastructure problems makes it difficult for local partners to tackle

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[1] 2006-07 (Oxford Economics). While some of this contribution represents the link with London, almost £15 billion was directly from employment within the South East.
[2] Index of Multiple Deprivation, ONS, 2007
[3] ONS, 2007

them alone. Areas such as this, and other parts of the South East, need public investment as much as other parts of the UK.

2.4 The latest Index of Multiple Deprivation (2007) ranks England's 354 district and unitary council areas to show the most deprived locations. In the South East, areas including Hastings (more deprived than 323 other councils) and Thanet (more deprived than 289 others) demonstrate the presence of significant need in our coastal areas.

2.5 The South East also has **significant levels of unemployment in some perceived high performing areas**. For example, figures from Buckinghamshire Economic and Learning Partnership show that there were 7.7% fewer employees in Aylesbury Vale in 2009 compared to 2008, a fall of 5,300. **This was the 20th worst performance of the 380 local authorities in Great Britain**.

2.6 There are also **significant challenges around workforce skills** within the South East – some 450,000 people have no qualifications at all, over 1million have poor literacy and 991,000 have poor numeracy skills.

2.7 Data also shows the South East's rural areas need help to combat poverty, as **rural low pay and high cost of living cause problems for many households**. In South East sparsely-populated villages the median household income in 2006 was £23,000pa, almost 10% lower than the median across all English villages of £25,000pa[4]. However, South East housing costs are higher than elsewhere. In 2006, lower priced homes in the South East cost 8.6 x average salary, rising to 12.7 x average salary in Tandridge, Surrey. The comparable figure for England is 7.1[5].

2.8 Public spending in the South East does not reflect the sheer size of our population and therefore the scale of the problems we face. At over 8 million people, the South East has a higher population than London and three times the population of the North East. Despite this, planned spending figures for 2009-10 show spending per head of population in the South East is 13% below the English average; in London it is 15% above the average. **Public expenditure per head of population in the South East is below the national average across all categories** of expenditure, with expenditure on housing and community amenities more than a third below the national average[6].

2.9 South East local authorities will also have to deal with the difficult impact of the loss of the Working Neighbourhoods Fund, which channelled £450 million to different parts of the country. This will lead to significant budget cuts in local authorities such as Hastings.

3. Reliance on public sector employment

3.1. Latest data from BIS shows 641,600 jobs in the public sector in the South East or 17.2% of all South East jobs. This is the second lowest proportion in the country after London, but the **third highest number of public sector jobs in absolute terms** after London and the North West. (Section 3.6 shows the breakdown across the South East and Figure 1 on page 5 shows the latest BIS figures on the split of public/ private sector jobs across the country).

3.2. Many areas of the South East, especially poorer coastal areas, rely on significant levels of public sector employment. In **parts of the south coast around 40% of jobs are in education, health and public administration.**[7] These areas have been hard hit by public

[4] CACI, 2006: Paycheck. Data from Commission for Rural Communities, State of the Countryside 2007: Economic Wellbeing data tables
[5] Annual Survey of Hours and Earnings; Land Registry, 2006 via Communities and Local Government website
[6] SEEDA South East Economy Review December 2010
[7] ONS Annual Population Survey 2009

sector jobs losses, with some 40% of South East job losses during April-June 2010 in the public sector[8].

3.3. **High levels of public sector employment also define the economies of places such as Oxford and Guildford.** In Oxford, for example, some **46% of jobs are in public administration, education & health.** In these areas, the private sector will also feel the effect of public sector cuts, especially firms who rely on public sector contracts. Towns like Guildford will, at least in the short term, see public sector organisations closing and leaving significant office space vacant.

3.4. As paragraphs 3.2 and 3.3 illustrate, many areas of the South East have great need for public investment to support transition to higher levels of private employment.

3.5. Excluding South East businesses from initiatives like National Insurance discounts **ignores the need to encourage new job creation in the areas that desperately need incentives to rebalance the economy** and/or support economically-led regeneration. We also have an untenable situation affecting areas such as the South East Midlands LEP (which includes parts of the midlands and parts of the South East), where some businesses will be eligible for NI discounts but others in the same LEP area will not.

3.6 In December 2010, SEEDA assessed likely effects of public sector cuts on the South East economy, using figures produced by the Office for Budget Responsibility (OBR) in November 2010. Key findings include[9]:

- OBR estimates that government employment will fall by 330,000 by 2014-15 and the policy to freeze total public spending in real terms in 2015-16 would imply a further fall of 80,000 in that year.
- Government employment in the South East could fall by between 48,500 and 54,300 or by 1.3% to 1.5% of total employment. In Kent the fall could be 2.3% to 2.6% of total employment.
- BIS data shows the location of the 641,600 public sector jobs across the South East:

Historic County Area	**Public Sector Jobs (2008)**
Hampshire	152,600
Kent	130,400
Surrey	78,000
Berkshire	64,000
Oxfordshire	61,400
East Sussex	56,200
West Sussex	52,600
Buckinghamshire	46,400
South East Total	**641,600**

- BIS figures are workplace-based, so the total number of South East residents employed in the public sector is likely to be higher as some will commute to public sector jobs in London.
- Within the South East, Hampshire and Kent have the greatest number of public sector jobs, but in Kent they represent a higher share of total jobs (more than 1 in 5).
- Of the **10 districts with the highest share of public sector jobs, 3 are in the South East:** Oxford (46%); Hastings (43%); Canterbury (41%).
- Of the **50 districts with the highest share of public sector jobs, 9 are in the South East** – 7 of them on the coast, reflecting a general trend of higher public sector employment in coastal areas. Some of the worst affected local authorities are found in the coastal areas of Kent, East Sussex and Hampshire.
- Between 2003 and 2008 total South East employment increased faster than the national average, but within that public sector employment increased twice as fast as

[8] HR1 redundancy notification form data via BIS/JobCentre Plus
[9] SEEDA South East Economy Review December 2010

the national average. In the **South East, dependency on public sector jobs increased faster than in any other region.**

- Greatest absolute reductions in direct public sector jobs are likely to be in Hampshire and Kent. However, as a proportion of total employment the greatest effect could be in Kent and East Sussex. All three areas suffer significant deprivation.
- There will be an indirect effect on the private sector, primarily from supply chain cuts. This could affect 70,000 -80,000 private sector jobs, or between 1.9% and 2.1% of all jobs in the South East. This does not mean 80,000 people will lose their jobs but lower replacement of staff who leave could lead to lower employment over time.
- Averages mask large disparities in economic performance within the South East, for example disguising the significant national underperformance of coastal local authority districts in employment, job density, deprivation etc. **In over one third of South East districts job density is below national average.**
- Many areas likely to be hit hard by public job losses are areas where the private sector is smaller and job growth is expected to be lower. Many are **South East coastal areas, which are similar to areas generally understood to be most at risk, such as parts of northern England**. In 2007, the coastal South East saw less than 3 start-ups per 1,000 population, compared to the English average of 3.5[10].

4. Conclusions

4.1. The South East is an area of contrasts that includes both globally successful locations and economically-challenged, deprived areas. Proper investment in the South East offers good returns and potential to help drive the whole of the UK from recession to recovery. While growth in other parts of the UK economy is encouraged, it should not be at the expense of investment and performance of the South East. It will also be critical to bring under-performing parts of the South East up to at least the average national levels of economic performance if we are to successfully reduce reliance on public sector employment in these areas.

4.2. A key objective of the new Regional Growth Fund is for initiatives that will lead to a less public sector dependent economy. There will be clear risks if the Government allows the South East only limited or no access to RGF funds. Firstly, successful areas could miss out on support for projects offering excellent economic returns that potentially protect the South East as a net contributor to the Treasury. Secondly, the South East's significant disadvantaged areas and their 500,000 residents would miss out on funding to support economically-led regeneration.

Figure 1: Private/ public sector jobs by region (2008)

Region	Private	Public	Total
North East	758,300	269,300	1,027,600
North West	2,343,700	647,700	2,991,500
Yorkshire and The Humber	1,724,200	494,800	2,219,500
East Midlands	1,506,000	368,800	1,874,900
West Midlands	1,862,300	474,000	2,336,400
East of England	1,948,400	419,300	2,368,100
London	3,470,500	697,300	4,167,700
South East	3,085,900	641,600	3,727,800
South West	1,757,500	458,400	2,215,600
Wales	849,500	319,800	1,168,900
Scotland	1,782,300	612,300	2,394,900
GB	21,088,600	5,403,300	26,492,900

(NB: updated 2009 figures are expected shortly).

[10] Source ONS VAT registrations/de-registrations 2007.