

Overview of the labour market

Current interest in the Scottish labour market continues to focus on the trends and patterns in the unemployment figures and again in this issue we note recent changes in Scottish labour market trends, with the usual caution of recognising the differences between the figures for employment and jobs and the impact of the trends in the numbers economically active and inactive on unemployment rates. The increasing concern as to the likely future trends in employment in the public sector prompts a consideration of the numbers and trends in public sector employment in Scotland.

Recent trends and statistics

Comparable figures on the labour market¹ between Scotland and the United Kingdom in the quarter February – April 2010 are summarised in Table 1. Labour Force Survey (LFS) data show that in the quarter to April 2010 the level of employment in Scotland fell by 47 thousand, to 2,432 thousand. Over the year to April 2010, employment in Scotland fell by 83 thousand. For the same period, UK employment fell by 213 thousand. The Scottish employment rate – those in employment as a percentage of the working age population – was 71.8 per cent, down 2.8 per cent compared to one year earlier. For the same period the UK employment rate was 72.1 per cent, down 1.2 per cent compared to one year earlier.

In considering employment, activity and unemployment rates it is important to remember the bases and relationships of these figures. LFS data is provided for: (1) all aged 16 and over and (2) for all aged 59/64. The first measure (all aged 16 and over) leads to higher numbers in employment, in the total economically active and economically inactive – but reduces the economic activity rates and unemployment rates, but at the same time increases the economically inactive rate. Conversely, the second measure (all aged 16 to 59/64) leads to lower numbers economically active, in employment and economically inactive – but leads to higher economically active, employment and unemployment rates but lower economically inactive rates.

The relationships between employment, unemployment, totally economically active and inactive are important in appreciating changing levels of employment and unemployment, and changes in the employment rates should be seen in conjunction with changes in the activity rates. If people leave employment and become unemployed (but are still economically active) the unemployment rate increases, but the economically active

rate remains unchanged. However, if people leave employment and do not seek employment, as seems to be an emerging pattern, they are categorised as economically inactive, as such the unemployment rate remains unchanged whilst the activity and inactivity rates change. This is clearly shown in table 1. Over the year to April 2010, the numbers employed fell by 83 thousand, but unemployment only rose by 35 thousand. However, the numbers of those aged 16-59/64 who are economically inactive rose by 54 thousand and the numbers economically active fell by 48 thousand.

Table 1 shows that for Scotland the preferred International Labour Organisation (ILO) measure of unemployment rose significantly to 212 thousand, between February–April 2010, or by 35 thousand over the year². The ILO unemployment rate rose in the three months to April 2010 and now stands at 8.0 per cent. This represents a 0.4 per cent rise over the last quarter and a 1.4 per cent rise relative to the same period a year earlier. The comparable ILO unemployment rate for the UK stands at 7.9 per cent, and is up 0.1 per cent over the most recent quarter and up 0.6 per cent over the year.

The economically active workforce includes those individuals actively seeking employment and those currently in employment (i.e. self-employed, government employed, unpaid family workers and those on training programmes). Table 1 shows that the level of the economically active rose by 1.1 per cent between February-April 2010. There were 2,644 thousand economically active people in Scotland during February–April 2010. This comprised 2,432 thousand in employment and 212 thousand ILO unemployed. The level for those of working age but economically inactive rose in the last quarter, up 1.1 per cent on the previous quarter to 699 thousand people; an increase of 1.6 per cent in the number of people of working age economically inactive over the last year.

In the year to September 2009 (the latest available data) inactivity rose by 10.4% (to 51,000) for men aged 18-24 and by 8.3% (to 25,000) for men aged 25–34. The comparable figures for women were -2.1% (68,000) and -1.9% (66,000).

The most recent (seasonally adjusted) figure for Jobseekers allowance claimants in Scotland stood at 135.5 thousand (or 134,800 computerised claims in May 2010). The UK claimant count rate at May 2010 was 4.6 per cent, down 0.1 per cent over the year.

Unemployment data at the Scottish constituency level for May 2010 is available in a SPICe Briefing, with the next update available 14th July 2010.

The most recent figures for the number of employee jobs by industrial activity are detailed in Table 2. Employee job figures are a measure of jobs rather than people. Total

Table 1: Headline indicators of Scottish and UK labour market, February – April 2010

February – April 2010		Scotland	Change on quarter	Change on year	United Kingdom	Change on quarter	Change on year
Employment*	Level (000s)	2,432	-47	-83	28,855	5	-213
	Rate (%)	71.8	-1.3	-2.8	72.1	-0.1	-1.2
Unemployment**	Level (000s)	212	7	35	2,472	23	192
	Rate (%)	8.0	0.4	1.4	7.9	0.1	0.6
Activity*	Level (000s)	2,644	-40	-48	31,337	28	-21
	Rate (%)	78.3	-1.1	-1.6	78.5	-0.1	-0.7
Inactivity***	Level (000s)	699	34	54	8,186	29	298
	Rate (%)	21.7	1.1	1.6	21.5	0.1	0.7

Source: Labour Market Statistics (First Release), Scotland and UK, June 2010

* Levels are for those aged 16+, while rates are for those of working age (16-59/64)

** Levels and rates are for those aged 16+, rates are proportion of economically active.

*** Levels and rates for those of working age (16-59/64)

Table 2: Employee jobs* by industry, Scotland, December 2009

SIC 2003 Section	All jobs (seasonally adjusted)	All jobs	Agriculture, Forestry and Fishing	Mining Energy and Water Supplies Industries	Manufacturing Industries	Construction	Distribution etc, transport etc, finance and business services	Education, health, public admin and other services
		A-O	A,B	C,E	D	F	H-K	L-O
Sep 05	2,373	2,373	32	37	232	129	1,102	842
Mar 06	2,376	2,368	31	36	224	135	1,094	848
Sep 06	2,361	2,360	33	38	224	138	1,085	841
Mar 07	2,380	2,371	34	41	222	145	1,082	847
Sep 07	2,389	2,389	33	43	222	139	1,108	844
Dec 07	2,391	2,400	25	42	220	139	1,127	847
Mar 08	2,392	2,382	28	42	218	137	1,109	849
Jun 08	2,396	2,396	35	42	216	136	1,114	853
Sep 08	2,389	2,387	35	41	216	138	1,104	852
Dec 08	2,374	2,385	33	41	212	140	1,103	856
Mar 09	2,362	2,354	37	40	206	139	1,075	858
Jun 09	2,340	2,339	29	41	203	130	1,075	861
Sep 09	2,335	2,332	27	40	203	127	1,071	865
Dec 09	2,322	2,336	29	40	202	123	1,074	868
Change on year	-52	-49	-4	-1	-11	-17	-29	12
Change %	-2.2	-2.0	-11.0	-2.1	-5.1	-12.0	-2.6	1.4

Source: Labour Market Statistics (First Release), Scotland, June 2010

* Employee jobs are a measure of jobs not people. If a person holds two jobs each job will be counted in this table

Table 3: Claimant count by age and duration (computerised claims only) Numbers and percentage change over year to May 2010

	All computerised claims	Up to 6 months	Over 6 and up to 12 months	All over 12 months
All 18+ numbers	134,800	84,400	29,500	20,900
All 18+ % change over year	6.4	-8.7	23.7	102.2
All 18–24 over year	39,100	29,700	7,500	2,000
All 25-49 over year	77,200	46,100	17,100	14,000
All 50 and above over year	21,300	12,100	4,600	4,700

seasonally adjusted employee jobs for the quarter ending December 2009 (the latest available figures) stood at 2,322 thousand. The number of jobs in the manufacturing industry has levelled out at 202 thousand, and down 11 thousand against the same quarter one year earlier. The number of jobs in the service industry fell by 29,000 over the last quarter to 1,074 thousand.

Table 3 provides some limited indications of the experience of unemployment in terms of claimant count by age and duration. The latest figures suggest that 20,700 have been claiming benefit for more than a year, up 10,900 over the year (up 112.1% on the year), 7,500 18–24 year olds have now been claiming benefit for over 6 months and up to 12 months (up 51% over the year).

Public sector employment in Scotland

The increasing recognition of the likelihood of widespread job losses in the public sector prompts a consideration of the trends in public sector employment. There has been much evidence to suggest that most Scottish public sector organisations have been planning considerable budget reductions in recent months, given that staff costs account for around 52% or £18.8 billion of Scottish public spending (Audit Scotland). Audit Scotland noted ‘the Scottish public sector is facing the biggest squeeze on budgets since devolution’ (2009:8) Announcements prior to the emergency budget included: some 4,000 job losses over the year in the NHS; Scottish universities preparing for up to 15% cuts in public funding over the next four years; likely staff cuts on top of current efficiency savings in Scottish police forces; a BBC survey earlier this month (June) noted that 10 out of the current 32 councils had indicated some 10,000 job losses over the next three to five years. These figures suggest staffing cuts/cuts in staff budgets ranging from 8–15%. The previous Labour administration had planned for 20 per cent real cuts over the next four years. However, the June emergency budget suggests an additional 4.6% with departments, outside health and overseas aid, facing real cuts of 25 per cent over the next four years. The increase of VAT to 20 per cent will impose additional costs on all

departments, including health. Given that the outsourcing of government services has increased in recent years the extent of the proposed cuts implies significant reductions in the numbers of private sector employees servicing public sector services.

Plans include early retirement schemes, but these are not without their problems. Glasgow’s plan for early retirement for all staff 50 and over is quoted as leading to problems in the provision of specialist services (e.g. social work, libraries and bereavement services).

Table 4, drawing on Q1 2010 data, indicates 573,900 (23.6% of the headcount numbers employed in Scotland) employed in the Scottish public sector (excluding those employed by RBS and Lloyds who have been reclassified as UK wide public corporations), and table 5 outlines headcount employment at the local authority level.

One of the arguments in support of restructuring public sector services has focussed on the benefits of greater efficiency and cost savings accruing from contracting out public sector services. Evidence from previous periods of contracting out suggests that such benefits may not be easily realised.

The 1998 Workplace Employee Relations Survey, the largest survey of its kind and sponsored by the DTI, ESRC, ACAS, PSI, noted overall ‘42 per cent of workplaces said they had made cost savings through contracting out, but 31 per cent were now paying more for the same services....government initiatives to stimulate contracting out appear to have led to net savings – 42 per cent of these workplaces were paying less (but) 18 per cent paying more’ (1999:36).

Others have called for a policy of incentivisation of public sector staff. Evidence from the Chartered Institute of Personnel and Development would suggest a degree of caution in the adoption of such employment policies. ‘PRP has proved in some circumstances a rather crude

Table 4: Total public sector employment in Scotland (headcount) quarter 1 2010

Broad category	Area		
Civil Service	Scottish Govt Depts.	5700	
	Crown Office	1900	
	Scottish Govt Agencies	8300	
	Non ministerial Depts.	1800	
Total Civil Service			17600
Local Government	Teachers	62700	
	Other education	51600	
	Social work	54700	
	Police & Related services	24900	
	Fire & related services	5800	
	Other	104700	
Total Local Government			304300
NHS		163000	163000
Public Corporations		4600	4600
Other public bodies		16100	16100
Total devolved sector	506000		
Armed forces		12100	12100
Civil Service	Min of Defence	5900	
	HM Revenue & Customs	10000	
	DWP	12200	
	Dept for International Dev.	500	
	Scotland Office	70	
	Other Civil service	3900	
Civil service			32600
Public corporations		17600	17600
Public bodies		5800	5800
Public sector financial		36300	36300
Total reserved sector	104300		
Total Scottish employment		610,200	

Source: Quarterly Public Sector Employment series, Scottish Government

Note: Figures may not total due to rounding

instrument and the 1990s and beyond witnessed a number of challenges to the theory. As some of the earlier schemes failed to deliver the promised results, some employers brought in new or revised PRP schemes or moved to new approaches altogether (for example, skills-based pay) while others have developed hybrid schemes. Today, the notion of linking pay to a wider definition of employees' 'contribution' rather than simple 'performance' is gaining ground. This emphasizes not only performance in the sense of the output (the end result that is achieved) but also the input (what the employee has contributed in a more holistic sense).' (CIPD Performance Related Pay Fact Sheet, May 2010).

Additionally the CIPD argued, 'despite considerable interest in linking pay to performance in the public sector dating back many years, this has proved harder to translate into practice..... A number of distinct issues arise when introducing PRP into a public sector setting, including the potential difficulty of measuring individual effort in certain roles. Moreover, public sector workers such as nurses are arguably motivated by a public service ethos which could actually be undermined by some forms of PRP. One theory though is that PRP in a public service setting can help employees to work more effectively rather than to work harder, by encouraging employees to focus on key objectives.' (CIPD Performance Related Pay Fact Sheet, May 2010).

The introduction of a two year public sector pay freeze, apart from those earning less than £21,000, will have to confront a pay landscape in which the rates of pay/reward are more visible and the gap between the lowest and highest paid has increased. All the ratios for earnings and equivalent net income represent high levels of inequality by comparison with those in the UK a generation ago, and by comparison with other industrialised countries. The Report of the National Equality Panel: An anatomy of economic inequality in the UK (published in January 2010) noted: " A recent assessment of the overall impact of tax and benefit reforms since 1979 finds that policy over the 1979 to 1997 period was equivalent to increasing benefits in line with price inflation, while policy since then has been equivalent to increasing benefits in line with the growth of national income. Reforms since 1997 have tended to reduce income inequality, while those of the earlier period tended to increase it" (National Equality Panel 2010:62). Developing a pay policy of restraint, or increased employee contribution for pensions, or a pay cut will need to be seen to be fair, the extent of the problem can be shown in evidence from the recent Pay Review Body on Senior Salaries (table 6), which notes that in the UK over 25,000 people working in the public sector earn more than £100,000.

An indication of total earnings for lead executives is produced by Incomes Data Services (2009). This suggested the distribution of total earnings of lead executives in selected National/Regional public bodies ranged from £72,000 to £262,500 with a median of £157,000. The

comparable figures for non ministerial government departments indicated a range from £82,500 to £272,500 with a median of £187,500; and for public corporations a range from £130,000 to £679,800 with a median of £314,800.

In three respects the announcement of a pay freeze for public sector employees represents a significant reduction in earnings for public sector employees over the next few years: Earnings will fall in real terms as a consequence of inflation; Inevitably local authorities and public sector departments will seek to reduce labour costs by reductions in hours and overtime working (see action by employees in Glasgow museums and sports facilities). There is much to suggest that such reduction will disproportionately affect the lowest paid, part time staff and those on flexible contracts; The employee pension contributions in the public sector will rise.

Outlook

In the year April 2010 the total in employment fell by 83,000 and unemployment rose by 35,000 to 212,000 but the numbers economically inactive rose by 54,000. The pattern of employment continues to change with rising numbers of part time (up 13,000 in the year to September 2009) and temporary employees (up 7,000 over the same period) and declining numbers of full-time workers (down 63,000 in the year to September 2009). Over the same period the numbers of part time workers who could not find a full time job rose by 19,000 (31.6%).

In 1980 unemployment totalled 202,000 (with an ILO unemployment rate of 7%). Unemployment rose through the 1980s to 351,000 in 1986 and the unemployment rate (ILO definition) peaked at 13.7% in 1986. By 1988 unemployment fell below 300,000, reaching 212,000 in 1997 but only fell below 200,000 in 1998. Between 1998 and 2008 unemployment fell by 72,000 to 113,000 (an ILO rate of 4.2%). Since April 2008 unemployment has risen by 97,000 and the unemployment rate has increased to 8.0%. The history of the recessions since the 1980s indicates the extent to which employment growth lags behind economic growth, there are few reasons why we should expect a more rapid job recovery over the next few years. The last twenty years not only witnessed a reduction in unemployment but also an increase in the employment rate (16-59/64) from 70.8% in 1990 to 77.1% in 2007. It is questionable whether this rate will be sustained given the combination of rising unemployment and likely reductions in the range and depth of public sector job support agencies.

The budget and post budget announcements have outlined an online event inviting public sector workers to submit their suggestions for reducing spending. This 'Spending Challenge' is designed to get the best ideas from people who work on the frontline of public services on how we can

Table 5: Local Government employment by staffing group and local authority (headcount) Q1 2010 (not seasonally adjusted)

Local Authority/Joint Board	Education Teachers	Other Education Staff	Social Work	Police and Related Services	Fire Services	Other Staff	Total All Staff
Aberdeen City	2,100	1,700	1,600	0	0	4,100	9,500
Aberdeenshire	3,500	3,300	2,500	0	0	5,600	15,000
Angus	1,400	900	1,600	0	0	1,800	5,700
Argyll & Bute	1,100	1,100	1,100	0	0	2,000	5,300
Clackmannanshire	600	700	400	0	0	1,100	2,800
Dumfries & Galloway	1,900	1,700	1,200	0	0	3,400	8,300
Dundee City	1,800	1,300	1,700	0	0	3,400	8,200
East Ayrshire	1,500	900	1,300	0	0	2,900	6,700
East Dunbartonshire	1,400	900	700	0	0	2,100	5,000
East Lothian	1,200	1,000	900	0	0	1,800	4,900
East Renfrewshire	1,400	900	700	0	0	1,700	4,700
Edinburgh, City of	4,000	3,600	4,400	0	0	7,000	19,100
Eilean Siar	400	500	700	0	0	900	2,600
Falkirk	1,900	1,400	1,500	0	0	3,200	8,000
Fife	4,600	3,800	4,400	0	0	10,500	23,200
Glasgow City	5,400	6,800	5,100	0	0	6,100	23,500
Highland	3,100	2,800	2,400	0	0	4,600	12,900
Inverclyde	1,100	800	1,200	0	0	1,500	4,700
Midlothian	1,100	1,000	800	0	0	1,900	4,800
Moray	1,200	1,100	800	0	0	2,000	5,100
North Ayrshire	1,700	1,200	1,500	0	0	2,800	7,200
North Lanarkshire	4,300	3,200	3,600	0	0	6,700	17,700
Orkney Islands	400	500	800	0	0	1,200	2,800
Perth & Kinross	1,800	1,100	1,400	0	0	1,800	6,200
Renfrewshire	1,900	1,400	1,900	0	0	3,400	8,600
Scottish Borders	1,400	800	1,200	0	0	2,300	5,700
Shetland Islands	600	700	1,400	0	0	1,400	4,100
South Ayrshire	1,400	700	1,100	0	0	2,300	5,500
South Lanarkshire	3,400	2,500	3,000	0	0	6,600	15,500
Stirling	1,200	900	700	0	0	1,700	4,500
West Dunbartonshire	1,500	1,000	1,600	0	0	2,500	6,700
West Lothian	2,200	1,700	1,400	0	0	3,200	8,500
Total Bridge Joint Boards	0	0	0	0	0	100	100
Total Fire Joint Boards	0	0	0	0	5,800	0	5,800
Total Police Joint Boards	0	0	0	24,900	0	0	24,900
Total Valuation Joint Boards	0	0	0	0	0	600	600
SCOTLAND	62,700	51,600	54,700	24,900	5,800	104,700	304,300

Source: Joint Staffing Watch Survey, Scottish Government

Notes:

1. Figures are rounded to the nearest hundred
2. Totals may not add to the sum of the parts due to rounding

3. Figures for Fire Service staff exclude volunteer and retained firefighters
4. Police and Fire Service staff in Dumfries and Galloway and Fife, who are not covered by Joint Boards are included within the figures for Joint Boards for consistency.

Table 6: Estimated percentage of full time employees in selected earnings bands in 2008/9 (UK)

Annual gross pay (£)	Public sector %	Private sector %
Up to 50,000	91.7	87.8
50,001 – 75,000	5.9	7.4
75,001 – 100,000	1.2	2.4
100,001 – 150,000	0.9*	1.4*
Over 150,000	0.2*	1.0*

Source: OME analysis of the ASHE dataset provided by the ONS

* Small sample sizes, figures should be treated with caution.

deliver more for less' (http://www.hm-treasury.gov.uk/spend_index.htm). It is unlikely that a 'workforce demoralised by redundancies, pay restraint and pension reform' (J. Philpott, chief economic adviser to the Chartered Institute of Personnel and Development. 23.6.2010) will want to help the Government deliver its manifesto commitments.

Cliff Lockyer
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Endnotes:

¹The Census 2001-consistent population figures at local authority level were released in February 2003. This has allowed the production of interim regional LFS estimates. The population data only cover the periods up to mid-2001. The data presented here are taken mainly from Labour Market Statistics, May 2008 and are consistent with the updated LFS data available on NOMIS from summer 2004. Labour Market Statistics continue to report data for Scotland at the quarterly level, so this will continue to form the basis of our analysis of movements in the labour market between quarters.

²The Labour Force Survey definition of ILO unemployment takes precedence over the claimant count measure. ILO unemployment is much less sensitive to changes in the regulations governing unemployment benefit, and conforms to a widely accepted standard to allow for more meaningful cross-country comparisons.