

General Government Employment Growth Forecasts

1. Forecasts for General Government employment growth are driven by two factors:
 - a. Implied Resource Departmental Expenditure Limit (DEL) growth rates, which determine the growth of funds available for total paybill; and
 - b. Projected paybill per head growth rates, which together with total paybill implies a forecast for levels of employment.
2. For modelling purposes total paybill is assumed to remain a constant proportion of Resource DEL. Therefore any changes in implied Resource DEL growth rates will have a direct impact on implied paybill.
3. The impact of changes in paybill on employment is determined by paybill per head. Paybill per head is affected by changes in:
 - a. Basic pay settlements;
 - b. Pay drift;
 - c. Employer pension contributions; and
 - d. Other factors, such as national insurance contributions and workforce-specific factors.
4. All things being equal, forecast employment will be reduced by either:
 - a. A reduction in implied Resource DEL; or
 - b. An increase in projected paybill per head.
5. As was noted when the Pre-Budget and Budget employment forecasts were published on 30 June, changes between the two forecasts are a combination of changes to the modelling assumptions regarding paybill per head growth and the effects of policy announcements including the effects of lower Resource DEL growth and public sector pay policy changes announced in the Budget. These changes in assumptions and methodology between the two forecasts make direct comparisons difficult.
6. The Budget Forecast employs a more consistent series of stylised assumptions about future growth in the components of paybill, moving away from the previous approach of basing forecasts on more subjective judgements of the previous Government's policy by Treasury spending teams. The assumptions used in each forecast are summarised Table A in the annex to this note.

7. The Budget Forecast published on 30 June represents the OBR's best estimate of General Government employment. Table 1, below, sets out a further analysis undertaken to produce a hypothetical figure for the pre-Budget employment forecast, had it been prepared using the modelling assumptions underlying the Budget Forecast. This illustrative analysis has been undertaken in order to give an indication of the impacts of each methodological and policy change between the pre-Budget and Budget forecasts. The impact of each methodological change is isolated; however, these figures can only be indicative.
8. The analysis suggests that by 2014/15 the Pre-Budget Forecast for General Government Employment would have been 140,000 higher if the methodology employed in the Budget Forecast had been adopted.
9. It also indicates that, using these assumptions, the estimate of the cumulative impact of the Budget measures on General Government Employment would be to reduce it by around 160,000 by 2014-15. Given that the actual impact of policy will depend on a series of decisions on policy and the implementation of policy in the spending review and beyond which the Government has not yet taken, this figure can only be an approximation.

Table 1: General Government Employment Level (millions, end of financial year)

	2010/11	2011/12	2012/13	2013/14	2014/15
Pre-Budget Forecast	5.53	5.40	5.24	5.14	5.07
<i>Methodological Changes</i>					
Approximate					
		0.00	0.00	-0.05	-0.09
Cumulative Impact of		0.02	0.04	0.06	0.07
Change		0.03	0.06	0.09	0.12
		0.04	0.10	0.13	0.05
Hypothetical Estimated Pre-Budget Forecast under Budget assumptions		5.49	5.43	5.35	5.20
<i>Policy Changes</i>					
Approximate					
		0.03	0.07	0.07	0.07
Cumulative Impact of		0.03	0.03	0.03	0.03
Change		-0.08	-0.14	-0.21	-0.26
Budget Forecast	5.53	5.47	5.39	5.23	5.04
<i>Memo: Total cumulative impact of methodological changes</i>		<i>0.09</i>	<i>0.19</i>	<i>0.21</i>	<i>0.14</i>
<i>Memo: Total cumulative impact of policy changes</i>		<i>-0.02</i>	<i>-0.04</i>	<i>-0.12</i>	<i>-0.16</i>

Note: figures may not sum due to rounding.

Annex

Table A: Assumptions underlying Pre-Budget and Budget Forecasts

Assumptions	Pre-Budget	Budget	Rationale for change	Direction of impact on workforce forecasts	Total impact of change on Pre-Budget Forecast 2010/11-2014/15
Methodology change					
Basic Settlement	Internal assumptions, based on discussions with Treasury teams	GDP deflator	Moving away from more subjective judgements, given uncertainty over path of pay policy beyond pay restraint announced at Budget.	Negative (previous settlement assumptions lower than forecast GDP deflator)	- 90,000 jobs
Pay drift	Internal assumptions, based on discussions with Treasury teams	Historical average of the difference between average earnings growth and average basic settlement.	Moving to a more evidence-based assumption based on historical averages rather than subjective judgements.	Positive	+70,000 jobs
Employer pension contributions	Internal assumptions, based on discussions with Treasury teams. Assumptions relate to expenditure on contributions as a % of total paybill (influenced by demographic factors, opt-out rates etc), and no assumptions were made on future changes to contribution rates.	Employer pension contributions remain constant as a proportion of paybill (with exception of the armed forces in 11/12, due to an increase in contribution rates).	Moving away from more subjective judgements on assumptions such as exact opt-out rates and demographic changes of workforces. Neither forecast pre-empts the decisions of the independent pensions commission.	Positive	+120,000 jobs
Central modelling of all workforce impacts	Bottom-up workforce projections incorporated where Treasury teams hold these.	Aggregate public sector workforce projections modelled centrally with no exceptions.	Ensuring consistency of assumptions across all elements of the forecast e.g. ensuring that total paybill remains a constant proportion of RDEL.	Positive 11/12 - 13/14 Negative 14/15 - 15/16 (driven by differences in modelling assumptions)	+50,000 jobs

Table B: Policy changes between pre-Budget and Budget forecasts

Assumptions	Pre-Budget	Budget	Rationale for change	Direction of impact on workforce forecasts	Total impact of change on Pre-Budget Forecast 2010/11-2014/15
Policy change					
Headline pay in 11/12 and 12/13	1% cap in 11/12 and 12/13 for all public sector workers, except for the Armed Forces.	Estimated impacts of pay freeze with protection for those on low incomes. ¹	Policy change (announced at Budget)	Positive	+70,000 jobs
Employer NICs in 11/12	1% increase in 11/12	1% increase in 11/12, as well as increase of secondary threshold by £21.	Policy change (announced at Budget)	Positive	+30,000 jobs
Resource DEL changes	Implied RDEL as published in pre-Budget forecast	Implied RDEL as published in Budget forecast	Policy change (announced at Budget) and impact of other forecasting changes to AME spending	Negative	-260,000 jobs

¹ Forecast was produced before final decisions on the detail of policy were taken.

Table C: Breakdown of Assumptions underlying Pre-Budget Forecast

Paybill Per Head Contributions to Growth	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Basic Settlement	1.5%	1.1%	1.1%	1.7%	2.0%	n/a
Pay Drift	0.8%	0.7%	0.8%	0.7%	0.7%	n/a
Employer Pension Contributions	0.5%	0.7%	0.5%	0.5%	0.6%	n/a
Other (incl. NI Contributions)	0.3%	0.9%	0.1%	0.1%	0.2%	n/a
Total Paybill Per Head Growth	3.2%	3.4%	2.5%	3.1%	3.5%	n/a

Table D: Breakdown of Assumptions underlying Budget Forecast

Paybill Per Head Contributions to Growth	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Basic Settlement ²	1.5%	0.5%	0.5%	2.7%	2.7%	2.7%
Pay Drift	0.8%	0.4%	0.4%	0.4%	0.4%	0.4%
Employer Pension Contributions	0.5%	0.2%	0.0%	0.0%	0.0%	0.0%
Other (incl. NI Contributions)	0.3%	0.4%	0.1%	0.1%	0.2%	0.2%
Total Paybill Per Head Growth	3.2%	1.5%	1.0%	3.2%	3.3%	3.3%

² Figures for basic pay are not zero in 2011-12 and 2012-13 as a result of pay policy for lower earning public sector workers.