

Information Further to Ministerial Answers

**Information further to OAQ1380(FM) issued by Rhodri Morgan, the First Minister, on
3 April 2006**

To Nick Bourne and Alun Cairns

During First Minister's Questions on 21 March I said I would ask my statisticians to provide details of the problems with the analysis included in the article in the Financial Times on 20 March entitled "Forgotten Britain: how Labour has presided over a deepening divide". This material is attached to this letter.

The main message is that the approximations used in the article to estimate Gross Value Added (GVA) in the public and private sectors are inaccurate and underestimate private sector growth in Wales.

Out of the devolved countries and English regions, only Wales has seen a bigger percentage increase in private sector employment than in public sector employment since 1999. Wales has also seen the biggest percentage increase in total employment over this period. In addition, far from diverging, between 1999 and 2004 there was a bigger percentage increase in headline total GVA and GVA per head in Wales than in the UK as a whole.

I trust this helps to clarify why I felt the analysis in the article was misleading.

Public and private sector growth in Gross Value Added and employment: Financial Times article 20 March 2006

The analysis in the *Financial Times* article is based on the regional Gross Value Added (GVA) estimates published by the Office for National Statistics. There are no official estimates of the public/private sector split of GVA, but the authors have produced their own estimates based on industry sectors. (The authors have also produced their own deflated, real terms estimates of regional GVA.)

The article includes estimates of annual growth in public and private sector GVA between 1997 and 2003. Over this period, the estimates suggest that average annual GVA growth in the public sector in Wales has been nearly three times that in the private sector. For the UK As a whole, average annual growth has been slightly higher in the public sector than private sector.

The public sector GVA estimates in the article have been produced by combining three industry sectors:

- Public administration and defence, compulsory social security;
- Education;
- Health and social work.

The first of these is in the public sector, but the other two are spread across both public and private sectors. There are also parts of the public sector outside these three industry sectors. As a result, this industry sector analysis is a poor approximation of the public/private sector split of GVA. It is particularly poor when looking at change over time. This is because private sector activity in these industries has been increasing in recent years and public sector activity outside these industries has been decreasing.

While there are no official estimates of public and private sector GVA below UK level, there are official estimates of public sector employment for the UK countries and English regions. These were published by the ONS in *Public Sector Employment Trends 2005* and are also used in the *Financial Times* article. These estimates show that public sector employment in Wales increased by 6 per cent between 1999 and the year to mid-2005) compared to 11 per cent for the UK. Private sector employment estimates can also be derived from this publication and show growth in Wales over this period of 10 per cent (compared to 4 per cent in the UK).

These sub-UK estimates are based on information from the Labour Force Survey, scaled to overall UK public sector employment estimates. The Labour Force Survey can also be used to produce an industry sector analysis of employment. The table below shows the change in employment in Wales by both public and private sector and industry sector. These figures are consistent with those published in *Public Sector Employment Trends 2005*.

Wales employment by sector and industry, 000s

	1999	Year to Jun 05	Percentage change
<u>Public sector</u>			
Public administration, health, education	236	260	10%
Other industry sectors	51	43	-15%
Total public sector	287	304	6%
<u>Private sector</u>			
Public administration, health, education	115	142	24%
Other industry sectors	798	859	8%
Total private sector	913	1,000	10%
<u>Industry sector totals</u>			
Public administration, health, education	350	402	15%
Other industry sectors	849	902	6%

Source: Public Sector Employment Trends and Labour Force Survey, 4 qtr averages

Employment in Wales in the combined industry sectors of public administration, education and health increased by 15 per cent between 1999 and the year to mid-2005, while the rest of employment increased by 6 per cent.

So there has been a bigger percentage increase in private sector employment than in public sector employment, but the industry sector proxies used in the *Financial Times* article show the opposite pattern. This contradiction arises because private sector employment in these three industry sectors has been increasing and public sector employment outside these industry sectors has been falling.

An industry sector analysis does not provide a reliable proxy for the public and private sectors, particularly in relation to changes over time.