

Well Placed to Deliver?

Shaping the Pattern of Government Service

Independent Review
of Public Sector Relocation

Sir Michael Lyons

March 2004

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Contacts

This document can be accessed at:

www.hm-treasury.gov.uk/lyonsreview

For enquiries about this publication, contact:

Correspondence and Enquiry Unit
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 4558

Fax: 020 7270 4574

Email: public.enquiries@hm-treasury.gov.uk

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Foreword

Letter from Sir Michael Lyons to the Deputy Prime Minister and the Chancellor of the Exchequer

Dear Deputy Prime Minister and Chancellor,

I have now completed the review you invited me to undertake. With the cooperation of government departments I have identified up to 20,000 posts which can be dispersed from London. Initial estimates suggest that moves of this scale could generate savings over 15 years of more than £2 billion. To achieve this result will call for leadership, substantial early investment and more effective coordination across departments.

My conclusions, however, go well beyond this initial task and I argue that a new pattern of government service can make a significant contribution to your national policies for the reform of public services; reduced disparity in the economic fortunes of the regions; national competitiveness; and devolution. Research I have commissioned clearly demonstrates the positive impact that well-planned relocation can have on local economies; the work of government services and the quality of life for public servants.

I argue for a radical new approach to shaping the future pattern of services, with the retention in London of only slimmed-down headquarters functions for the main departments of government and a more vigorous test of the need to locate other agencies in the capital. A more dispersed, but integrated, government service offers cost advantages and can pave the way for future devolution. It can also make the processes of government more resilient to the threat of terrorism.

I am convinced of the need for Government to provide explicit advice on the geographical pattern of activity it is seeking to achieve over time. This will be the stronger if it is developed with the active cooperation of the devolved administrations, the regional development agencies and local authorities, including those of the capital, which remains the very heart of our system of government and national public service. I emphasise that individual location decisions need to be taken in the context of this advice but must be founded on service needs.

Finally, I would like to underline again the importance of leadership if the benefits I anticipate are to be realised. Leadership not only from ministers but also, critically, from those to whom the stewardship of government services have been entrusted.

A handwritten signature in black ink, appearing to read 'M. Lyons', with a large, stylized flourish at the end.

Sir Michael Lyons

Executive summary

Conclusions and recommendations

I was asked to advise ministers on the relocation of public servants out of London and the South East.

I conclude that the pattern of government needs to be reshaped. National public sector activity is concentrated in and around London to an extent which is inconsistent with Government objectives. In particular this pattern fails fully to reflect the large cost disparities between London and other parts of the UK and the revealed benefits of dispersal for the efficient delivery of government business and for regional economies.

London as capital needs a governmental core supporting ministers and setting the strategic policy framework. In every other respect the status quo is open to challenge.

If the Government wishes to make a significant impact on the pattern of its locations it will need to take firm action. I have proposed ten recommendations as follows:

1. Departments have identified more than 27,000 jobs that could be taken out of London and the South East, including up to 20,000 jobs for dispersal as a first tranche. Plans for these dispersals should be taken forward urgently as part of Government's forthcoming spending review.
2. Major dispersals are unlikely to offer a quick payback and they incur considerable costs up front. The Government must be prepared to make the necessary investment. Equally, there is a strong case for sharper incentives to encourage departments to seek the benefits of locations out of London and to keep their presence in the capital to a necessary minimum.
3. Departments should implement their relocation plans alongside efforts to align their pay with local labour market conditions. My review has demonstrated that failure to make progress on locally flexible pay will limit the efficiency gains from dispersal, and could undermine the economic benefits for receiving locations.
4. Whitehall headquarters should be radically slimmed down, reflecting a clearer understanding of what is really needed in London, and of the distinction between policy and delivery.
5. There should be a strongly enforced presumption against London and South East locations for new government bodies and activities; for functions such as back office work and call centres which do not need to be in London; and for bodies and functions whose effectiveness or authority would stand to be enhanced by a location outside London.

Conclusions and recommendations (*continued*)

6. Cabinet needs to give continuing political impetus to the locational agenda. Leadership should be provided by a Cabinet Committee and, in the short term at least, a lead minister. These arrangements should be supported by a small, short life unit at the centre, to act as a ginger group, to monitor and report on progress with dispersals, and to ensure that best practice is disseminated and embedded.

7. Permanent secretaries and other public sector chiefs are responsible for managing their departments' resources, accounting to ministers and to Parliament. Locational considerations must be an integral part of these responsibilities. The aim should be to mainstream the locational aspect of business planning.

8. The Government must take responsibility for the whole pattern of its locations, developing a strategic framework of guidance for departments and ensuring a mechanism for reviewing and where necessary challenging departments' locational preferences.

9. The Government office portfolio must be much more tightly managed. In particular, exits from London should be coordinated to ensure overall value for money and to strengthen individual relocation business cases.

10. The civil service needs a more coordinated approach if it is to minimise the costs and the adverse impacts on staff associated with relocation and redundancy.

These actions will help create a better pattern of government. By setting a good example, the Government may also promote more rigorous thinking about location in the wider economy, in the interests of UK competitiveness.

Introduction

1. In government, as in business, location matters. Where government is placed has an important bearing on the value for money it secures for taxpayers, the quality of services it delivers for customers, and the legitimacy it earns in the eyes of citizens. Location has implications for local and regional economies and for the character of the government service. All this is highly relevant to the Government's current ambitions for improved public services, efficiency, regional competitiveness and devolution.

2. The forces of technology and global competition are changing the conditions in which government and citizens interact, and a wider debate is being conducted about inequalities between and within regions, and about the concentration of power in London. In the past, the geography of government has received intermittent bursts of attention, but never been subject to sustained challenge. A different approach is likely to be needed in future.

3. That is the context in which I was asked, in April 2003, to review the scope for relocating public sector jobs out of London and the South East, and that is why the task is important. I regarded the Chancellor's 2003 Budget statement, which announced my review, as marking a watershed in public policy on locations. My work generated considerable interest and elicited many "bids" from local and regional bodies. I saw this response as evidence of a lively public interest in power and diversity in the UK, and of eagerness from authorities across the country for economic growth and greater influence.

The policy and historical context

4. The Government is committed to improving the efficient delivery of public services, boosting regional economic growth and bringing government closer to the people, through greater decentralisation and devolution. My review is relevant to each of these themes and I have taken note, in particular, of plans for elected regional assemblies subject to the outcome of public referendums, and the Government's stated ambition to empower local authorities.

5. There are also significant external factors. Technology will continue to change the character of government and the ways it relates to citizens. The office environment is evolving, with home-working, hot-desking and other kinds of flexible working becoming more common. Global competition has already increased the international mobility of many types of work, and the public sector will clearly not be immune from future changes. Following the events of September 11 2001, the need for resilience in the face of emergencies should have become a more prominent strand of business planning.

6. What does all this portend for the pattern of government locations? It suggests that future dispersals from London and the South East (and reconfigurations more generally) are likely to be part of bigger reforms which also transform the nature, organisation, productivity and size of public service functions. They may come about by a number of routes, including decentralisation, devolution or a change in the boundary between public and private sectors.

7. These moves are unlikely to follow the model of earlier government relocation drives – in particular the dispersals spawned by the Hardman review of 1973 which transferred self-standing business units to pre-ordained locations in the interests of regional policy. They helped give rise to a narrow and mechanical conception of “relocation” – a kind of chess game played within the machinery of government.

8. This approach is outdated, as is the term “relocation” itself. For modern times the “locational dimension to business planning” might be nearer the mark. I see my review as championing good business planning in government and the responsibilities of service chiefs to deliver.

Why disperse? The impact on government business

9. London remains the most expensive part of the UK for doing business, and an often difficult place to find employees. There is no sign of that changing in future. The financial modelling carried out by my review suggests that relocating 20,000 posts could save the public purse more than £2 billion after 15 years.

10. The evidence is clear that organisations which have dispersed activities from London and the South East enjoy significant cost savings, reductions in staff turnover and improvements in the quality of service they deliver.

11. The business case for dispersal is not just about cost savings. New locations can provide the spur for new ways of working: adopting better business practices, processes and technology, and reforming organisational culture. The best relocations seem to have been pursued as part of a broader reform and re-engineering effort.

12. Dispersal is never problem-free and there are particular issues facing split headquarters functions, for example the amount of senior time spent in visits to London. The research suggests that clear leadership and careful management can contain and reduce these problems (for example by establishing clarity about the real need for meetings, and fully exploring the potential for alternative modes of communication).

13. Careful attention needs to be paid to the impact on individuals. Modern family structures have created a complex context for location decisions. There are increasing numbers of dual income households and workers with caring responsibilities, and people are protective of their work/life balance. But the benefits for individuals should not be dismissed. Staff who move in post may stand to enjoy large improvements in their quality of life and there are benefits for those living outside London and the South East too – new job opportunities and the chance to pursue a public service career without having to move to London.

Why disperse? The impact on communities

14. The economic analysis I commissioned confirms that dispersal of government activity is likely to bring positive economic benefits for receiving locations – a more optimistic prognosis than that of Sir Henry Hardman in 1973.

15. But there are some important conditions. The impact – measured in terms of knock-on job creation – will be greater when dispersals maximise the business benefits to the organisation and where they are clustered in a limited number of locations rather than very widely spread. The impact is also greater where pay is aligned with local labour market conditions, so that relocated jobs are not at risk of crowding out or bidding up the cost of local jobs in the public and private sectors. In the absence of local pay flexibility and a degree of clustering in dispersals, the long term economic effects of government dispersals may be much smaller.

16. There are also wider spin-off benefits associated with bringing new investment, jobs and people to particular areas – for example the potential to regenerate run-down areas, build public sector career hubs and revitalise civic institutions and community action.

17. What is the impact on London and the South East of exporting jobs to other parts of the country? The evidence is that the disadvantages to London are likely to be short-lived and outweighed by the benefits to other areas. Authorities in London have broadly supported this analysis. It has been put to me that some 20,000 jobs taken out of London would be negligible set against a labour market of several million and forecasts of strong economic and employment growth, and that relocating jobs may help to relieve some of the overheating in London.

18. Some parts of the South are deprived and they are not all necessarily suitable exporters of government work. Care must also be taken in relation to the impact of dispersal on ethnic minorities in London. These issues are explored in the main report.

The scope for greater dispersal

19. Starting with a clean slate, the Government would be unlikely to replicate the current distribution of functions across the country. Certainly, there is wide dispersal, and this reflects in part the previous wave of relocations as well as continuing efforts at dispersal, albeit piecemeal and low-key, up to the present day. But the lack of sustained focus on location as an integral feature of government business planning has ensured that the pattern is not optimal and is still too dominated by the pull of London.

20. Striking features of the current distribution of government activity include very large Whitehall headquarters; a heavy London concentration of senior level posts; a significant residual component of back-office and transactional work, including call centres, in London; and a surprising number of arm's length bodies, regulators and inspectorates still in the capital.

Departments' proposals

21. I asked government departments to submit relocation proposals and table 6.1 in chapter 6 summarises the response. About 27,000 posts could be taken out of London and the South East, of which up to 20,000 are candidates for dispersal. Taking account of expected job reductions because of efficiency measures, the net job creation elsewhere in the country would be likely to be a lower number.

22. Departments have made a promising start but now need to convert these proposals into plans. Nor have they exhausted the full scale of the opportunity for dispersing functions out of London and the South East. The 20,000 posts are best viewed as a first tranche. The proposals:

- Mostly involve the movement of relatively junior, operational posts
- Show a preference for departments' existing regional sites
- Leave substantial scope for reducing the size of departmental London headquarters, and for reconsidering the London headquarters location of many executive agencies, arm's length bodies, regulators and inspectorates
- Leave further scope for relocating back office and government call centre activity out of London
- Leave wide scope for dispersal opportunities arising from joining up functions across organisational boundaries.

23. Departments were disappointing in their stance on headquarters and policy functions. With some exceptions, I found that they had not challenged sufficiently rigorously the case for activities to remain in London headquarters. It is not a caricature to summarise some of the responses as "we're here because everyone we deal with is here"; "it's policy, so has to be in London" and "everything we do in London is indivisible."

24. Such thinking reveals the need for greater clarity about the essential constituents of headquarters functions and more precision in defining policy. There is a need to confront outdated and pessimistic views about the potential afforded by communications technologies, including videoconferencing, and to challenge perceptions shaped by a Whitehall mythology about earlier relocations.

Reshaping the pattern of government – an agenda for action

25. I was asked to advise ministers on the relocation of public servants out of London and the South East. It is not my business to prescribe in detail how this should be done. I have recommended a broad approach which is consistent with the evidence and with the Government's own objectives.

26. The geographical pattern of government activity needs to be reshaped. National public sector activity is concentrated in and around London to an extent which is inconsistent with Government objectives. The current pattern fails fully to reflect the large cost disparities between London and other parts of the UK and the known benefits of dispersal for efficiency and delivery. It does not reflect the Government's regional ambitions or policies for decentralisation and devolution. Nor is it best placed to maximise resilience in the face of terrorist attack.
27. London as capital needs a governmental core supporting ministers and setting the strategic policy framework. This is not an endorsement of the status quo, which in every other respect needs to be challenged.
28. There is an immediate need to convert the departmental proposals to my review into firm plans using the leverage of the coming spending review.
29. The key to progress is firm leadership. Ministers must be actively involved in helping to reshape the pattern of government. Permanent secretaries and other public sector chiefs are responsible for managing their departments' resources, accounting to ministers and to Parliament. Locational planning should be integral to their responsibilities, and reflected in their formal duties, accountabilities and performance management arrangements. The eventual aim is not "relocation" but the embedding of the locational aspect of business planning. This may also need new incentives.
30. In three key areas, Government needs to become more coordinated to get the best outcomes. The overall geographical pattern of locations has a major bearing on the Government's objectives for efficiency, the reform of public services, regional economic growth and devolution. The Government must take responsibility for this evolving pattern, rather than be content for departments to pursue their separate locational plans without reference to each other and to broader concerns.
31. Secondly, the Government office estate must be much more tightly managed. In particular, exits from London should be coordinated to ensure overall value for money and to strengthen individual relocation business cases.
32. Thirdly, the civil service needs a more coordinated approach if it is to minimise the staffing costs and adverse human impacts associated with relocation. It makes business and economic sense to pursue an approach which emphasises moving posts rather than people, and to seek to redeploy staff who do not move with the post, rather than to make them redundant. It also makes sense to build up activities in other locations, as well as relocating existing activities from London and the South East.
33. I have set out ten recommendations at the head of this summary and in more detail in chapter 10 of this report. If my suggested plan of action is followed, there will be a real prospect, in time, of government becoming better placed to deliver on its objectives.

1

Introduction

Summary

I was asked to investigate the scope for relocating national government activities from London and the South East, in support of a renewed Government commitment to realising the efficiency and regional benefits of dispersal.

My approach was conditioned by the need for sound evidence and my desire to be open and consultative, recognising the strength of interest in my review.

I was clear that location decisions are an integral part of wider efforts to improve efficiency and service delivery in government and must be primarily business-case led, rather than imposed by diktat.

I was in no doubt that my work was relevant to a broader debate about governance and power in the UK, and I was interested in how dispersal could contribute to a better balancing of London's magnetic pull. Equally, I was clear that London as capital would continue to need an official core supporting ministers.

The main elements of my review were proposals from government departments which I assessed; research evidence on the business and economic impacts of dispersal; a high-level comparison of alternative locations; and a wide-ranging consultation.

Introduction and scope

1.1 In April 2003 I was invited by the Chancellor of the Exchequer and the Deputy Prime Minister to lead an independent review examining the potential to disperse public sector activities from London and the South East to other areas of the United Kingdom. My terms of reference were as shown.

Terms of reference

“In light of the need to improve:

- the delivery and efficiency of public services; and
- the regional balance of economic activity

and taking into account departmental pay and workforce strategies, Sir Michael Lyons will make recommendations to the Deputy Prime Minister and the Chancellor for the relocation of civil service and other public sector workers to inform the next spending review.”

1.2 Announcing my review in his Budget 2003 speech, the Chancellor said:

“Past Civil Service relocation reviews have included the Fleming Review – and, more recently, the Hardman Review which led to over 10,000 civil service jobs transferred out of London. The Deputy Prime Minister and I now propose that we examine not only the civil service but non-departmental bodies and other public services with the aim of achieving best value for money. Successful relocation out of London by private companies suggests public sector jobs transferred to regions and nations could exceed 20,000 – to the benefit of the whole country.”

1.3 Consistent with the Chancellor’s statement, I focused on UK government departments and their executive agencies (such as the Highways Agency); and public bodies sponsored by departments, which include non departmental public bodies or NDPBs (for example the Housing Corporation) and NHS Bodies (for example Special Health Authorities). I was also interested in regulators and inspectorates, some of which are government departments in their own right (eg OfSTED), and in public corporations like the BBC and Bank of England.

1.4 I did not consider that face-to-face public services provided in NHS trusts, schools, police forces, local authorities and so forth were within the scope of my work. For obvious reasons I also excluded from consideration those bodies already wholly located outside London and the South East.

My approach

1.5 The manner in which I conducted the review was conditioned by a number of principles which I felt to be fundamental. Firstly, it was clear to me that the Chancellor’s Budget statement marked a watershed in government policy on relocation, which for many years until that point had not been a central theme of government thinking (though it had been pursued in a piecemeal and low key manner). Secondly, I held that the principal basis of any decision to disperse must be the business case of the relevant organisation. Centrally imposed moves, as characterised by the 1973 relocation review by Sir Henry Hardman, did not strike me as realistic in modern circumstances. This principle informed the guidance I gave to departments.

1.6 Thirdly, it was clear to me that relocation was not an end in itself, but made sense only as part of a broader set of business considerations in government, in particular the search for greater efficiency, and more effective delivery of public services, which were the subject of other reviews and initiatives of which I took careful note. Relocation was also highly material to the Government’s interest in improving economic growth, and developing new forms of governance, across the UK.

1.7 Fourthly, I was eager to found my conclusions on robust analysis and evidence, to be transparent in how I reached these conclusions, and to reflect the considerable degree of public and media interest in my review. I was conscious that my work was relevant to a broader public debate about the future of UK governance, including concerns about how best to reflect the diversity of these islands, and to balance the power and magnetic pull of London.

1.8 Finally, I was clear that London, for as long as it remains the political and economic capital, is the proper home for government’s core headquarter functions, and that to seek the wholesale relocation of certain government departments is not therefore realistic. In every other respect, I viewed the status quo as ripe for challenge.

My methodology

1.9 The core of my work was to elicit and assess proposals from government departments for the relocation of activities out of London and the South East, subject to guidance from my review team. The Chancellor's public aspiration to relocate at least 20,000 posts provided important context for my work, but was not factored into the guidance for departments. In other words there were no quotas, and I left it to departments to determine numbers in light of their own business needs and opportunities.

1.10 I commissioned the economic consultants *Experian Business Strategies* to draw out the lessons of previous relocations in the public and private sectors, with a view to clarifying the business benefits, and understanding how to maximise these benefits and avoid pitfalls. *Experian* in parallel examined the economic impact of public sector dispersals. I also retained the property consultants *King Sturge* to conduct a high level comparison of various locations across the United Kingdom.

1.11 By means of correspondence, a dedicated website and meetings with interested parties, I conducted a wide-ranging consultation exercise, inviting, in particular, views and evidence on the impact that public sector dispersal could have on regional economies, and on the governmental policy-making process. I received more than 200 responses to my consultation, and my review team and I met a wide range of interested parties, including heads of government departments, chairs of the Regional Development Agencies, local authorities, the Council of Civil Service Unions and academics with an interest in regional and urban economics. A full list of those with whom we engaged is at Annex B. In keeping with my desire for openness, I also published an interim report¹, in September 2003.

The progress of my review

1.12 It was originally intended that I would report in November 2003. By agreement with my sponsors, I extended my timetable by a further four months, to allow for closer engagement with government departments. This extension was very valuable for the opportunity it gave me to conduct face-to-face discussions with a number of permanent secretaries and other departmental heads, and I was grateful for their frankness.

1.13 During my review, two developments occurred which advanced Government policy on locations, and gave additional momentum to the Chancellor's earlier statement. In the wake of my interim report, the Chancellor accepted my provisional recommendation that departments should not enter into new property commitments in London without prior Treasury consent (an arrangement I am now recommending should be continued). The Cabinet also endorsed a set of principles, set out in chapter 10, which confirmed the Government's commitment to greater dispersal of its activities from London and the South East.

The structure of my report

1.14 Chapter 2 sets out in more detail the historical, policy and economic contexts in which my review sits. Chapters 3 and 4 describe the evidence I have garnered concerning the impact of dispersal on government business (chapter 3) and on the locations affected (chapter 4).

¹ "Independent Review of Public Sector Relocation: interim report". Sir Michael Lyons, September 2003. Available at www.hm-treasury.gov.uk/lyonsreview

1.15 Chapter 5 describes the extent to which government business is currently distributed and discusses the scope for greater dispersal. Chapter 6 reports on the proposals which departments made to my review, and my assessment of them. A more detailed, department-by-department treatment of these proposals is also contained in the annexes. Chapter 7 considers the human dimension to location decisions.

1.16 Chapter 8 proposes the criteria and processes that will be needed to shape an optimum pattern of locations outside London and the South East. Chapter 9 discusses the analytical and cultural challenges facing the civil service if it is fully to grasp the opportunities for a better distribution of activities. Chapter 10 attempts to draw all the threads together into a set of conclusions and recommendations.

My team

1.17 Throughout my review I was supported by a small team of officials borrowed from HM Treasury and the Office of the Deputy Prime Minister, and based in the Treasury. The team was headed by Jeremy Taylor and included Barbara Burke, Helen Chamberlin, Rob Epstein, Nicki Goddard, Marius Gallaher, Pam Harris, Helen Nicholson and a vacation student, Trusha Patel. I am enormously grateful for all their help.

1.18 I also benefited from the advice of a “critical friends” group of senior government officials, acting in their personal rather than departmental capacity. These were Richard Allan, David Amos, Michael Barber, John Barker, Paul Britton, Stephen Kershaw, David Pocock and Rob Smith.

1.19 In addition, I drew on the counsel of an informal sounding board of people very much not part of the government machine: David Walker, the journalist and broadcaster, Amanda McIntyre of the Confederation of British Industry, and consultant Fiona Driscoll from Hedra.

1.20 Many others contributed to my review in the formal exchanges with departments, the consultation and in other ways. They are too numerous to mention here and I am grateful for all their thoughts. In the end, of course, the views expressed in this report are very much my own.

2

The context

Summary

The Government is committed to improving the efficient delivery of public services, boosting regional economic growth and bringing government closer to the people, through greater decentralisation and devolution. My review is relevant to each of these themes.

Questions of location are closely bound up with Government's interest in efficiency – in particular rationalising back office functions, working across administrative boundaries, changing the interface between government and citizen through new technology, and slimming down government headquarters.

Implications for location also arise from clarifying thinking on the distinction between policy and delivery, a theme developed by the Haskins review and one which is a current concern of the Government.

A changing external environment, with ICT developments, increasing global competition and the need for enhanced resilience after September 11 2001, are also relevant to the future pattern of government locations.

Future dispersals from London should be seen as part of this wider picture of change and reform, in which government functions, structures and posts can be expected to change significantly.

Dispersal can support the Government's efforts to grow regional economies and promote thriving towns and cities, and it goes with the grain of the aim to bring government closer to the people in a variety of ways.

Past relocation was undertaken largely as a series of one-off drives, led by the centre. The main drivers were cost savings, and the need to boost flagging local economies. Dispersal was limited by the technology of the time, and by a civil service culture based on assumptions about proximity. In this respect the past is not a good guide to future practice.

Introduction

2.1 Three policy themes have a direct bearing on my review. Firstly, the Government is committed both to the delivery of high quality services and to the rigorous pursuit of greater efficiency and productivity. Secondly, it is seeking to promote the growth of regional economies, and to narrow the disparities in growth rates between these. Thirdly, the Government supports devolution in a range of senses, including empowering front-line service deliverers, regionalising administrative functions, devolving powers to regional assemblies and re-negotiating the relationship between central and local government.

Efficient delivery

2.2 My review has taken place at a time when the Government is focussing on how to improve efficiency, ensuring that as much resource as possible is directed to public service delivery. This has been supported by a review led by Sir Peter Gershon¹. Meeting the challenge of efficient delivery will require a range of responses including re-engineering, rationalisation, cross-boundary collaboration and outsourcing.

2.3 The current concern with streamlining back office support functions, such as human resources, finance, ICT and estate management, has a particular resonance with my own work. Where frequent face-to-face contact with clients is not required, there is no rationale for support services to be colocated with clients at expensive London headquarters. Later in this report I examine the evidence that dispersal can itself be a catalyst for the introduction of new working practices, culture change, and for investment in new technology, all of which can deliver better and more cost-effective service to customers.

2.4 Slimming down large departmental presences in London headquarters is an efficiency priority which is central both to the Government's agenda – as the Prime Minister's statement below makes clear – and to my own review. It is a theme to which I return in chapter 9.

“Organisations in the business sector have changed dramatically in the last two decades, with the centre becoming smaller, more strategic and more intelligent. Its function is to develop strategy, monitor performance and intervene only when it needs to. ... There are clear implications here for government. Many government departments have a function similar to those of a headquarters of a major business operation....

“I expect to see other departments following the example of the Department of Health which is cutting its headquarters by 38 per cent by becoming focused on strategic leadership rather than micro-management. If we can get this right there is a double dividend: less unproductive interference in the day-to-day management of public services and more resources freed up for the frontline.”²

Policy and delivery

2.5 There is a growing realisation that effective government needs a clearer understanding of the relationship between policy and delivery. This in turn has implications for the distribution of government activity. Later in this report I will show to what extent the notion of “policy” remains imprecisely defined in Whitehall.

2.6 I was struck by Lord Haskins' recent review of rural service delivery for the Department for Environment, Food and Rural Affairs (Defra). He found that much delivery work is still being undertaken at the centre of the Department, and that this practice is probably widespread in Whitehall. He recommended a clear separation between policy development and delivery, and the use of regional and local delivery networks rather than national ones. He promotes two principles of good government as set out in the box below.

¹ The Efficiency Review, led by Sir Peter Gershon, Head of the Office of Government Commerce, was announced by the Chancellor in Spring 2003.

² From a speech by the Prime Minister, Tony Blair, on reforming the civil service, delivered on 24 February 2004.

“clear accountability, achieved through the pragmatic separation of policy development and policy delivery functions; and responsiveness to need, achieved through the extensive devolution of policy delivery to regional and local networks, as is the case in all other large democracies.

.....I have come to the conclusion that many of the delivery problems faced by Defra are consistent with more widespread shortcomings in Whitehall. These are both institutional and cultural. It is now widely accepted that UK administration is too centralised.”³

2.7 These insights are important, though I suspect that the distinction between policy and delivery cannot be made as sharply as Haskins suggests. More recently, and with a slightly different slant, the Prime Minister has set out the cultural and organisational challenges for a civil service needing to redefine the policy/delivery split for modern circumstances.

“The principal challenge is to shift focus from policy advice to delivery. Delivery means outcomes. It means project management. It means adapting to new situations and altering rules and practice accordingly. It means working not in traditional departmental silos. It means working naturally with partners outside of Government. It’s not that many individual civil servants aren’t capable of this. It is that doing it requires a change of operation and of culture that goes to the core of the Civil Service.”⁴

2.8 Meanwhile, important external factors are coming to bear on the business of government that in many ways reinforce the reform trends described above. The spread of technology – including the internet and wireless communications – will continue to change the character of government and the ways it relates to citizens. The working environment is evolving, with home-working, hot-desking and other kinds of flexible working becoming more common. Global competition has already increased the international mobility of many types of work and the public sector will clearly not be immune from future changes. Following the events of September 11 2001, the need for resilience in the face of emergencies should have become a more prominent and integral strand of business planning.

Regional economic balance

2.9 Economic disparities between English regions are stark (but there are also major disparities within regions). In the north of the country there is lower employment and higher inactivity, with all the attendant problems. In London, while there is higher GDP per head, there is a range of overheating problems including relative scarcity of key public sector workers and other staff, congestion of the transport network (with many workers facing long commuting times), and prohibitively high property prices. These problems are explored in more detail in chapter 3. Across the wider South East there are problems of housing shortage, exacerbating house price inflation and shortages of key public sector workers.

³ From “Rural Delivery Review”: A report on the delivery of government policies in rural England”, Christopher Haskins, October 2003.

⁴ From a speech by the Prime Minister on 24 February 2004.

2.10 The Government's aim is to promote economic growth in all parts of the UK, and to narrow the gap in growth rates between the English regions⁵. The Government is also trying to realise a vision of thriving towns and cities, encompassing urban regeneration, help for deprived communities, and boosting the performance of the major English cities, recognising their role as engines for regional economic growth. There is a particular emphasis on supporting the North⁶, and it is notable that the three regional electorates being offered the first opportunity to vote on elected regional assemblies are in the North. Meanwhile, the Government is preparing for major housing growth in selected areas of the South East.

2.11 In chapter 4 I consider whether dispersing government activity can contribute to these aims. Certainly, the many unsolicited bids I received from local authorities and other regional bodies calling for government functions to be relocated to their area demonstrated the strength of the belief that such presences raise the profile and prosperity of an area. The economic analysis that I report on later lends support to this view. I also found support from among authorities in London, including the Greater London Authority, that dispersal could help relieve some of the congestion and overheating effects in London.

Bringing government closer to the citizen

2.12 Too often, government appears to citizens outside London and the South East as remote, inaccessible and unresponsive to the diversity of the different regions and areas. These views formed an important backdrop to my review and were prominent in some of the responses to my consultation. This senior civil servant in the East Midlands was typical:

“...of course everything is London-centric. It is a continual struggle to ensure that the regional perspective is heard and incorporated into policy making”

2.13 Much of this public feeling reflects a centralised political culture which the present Government has been seeking to reform since 1997. Following devolution in Scotland and Wales, the Government has taken forward a programme which has involved: creating the Regional Development Agencies (RDAs) to secure sustainable economic performance for their region; facilitating the development of (voluntary) regional chambers; and strengthening the capacity of Government Offices (GOs) to join up national policy and regional priorities. The Government is now committed, as mentioned above, to elected regional assemblies in three English regions if they are supported in referendums due in 2004.

2.14 Some have questioned whether regional assemblies are a radical enough step. For example, Catalyst argue that the very seat of government should be dispersed⁷. Others have argued for a new culture of local and regional democracy, which recognises the weaknesses of authority-based systems of control⁸, or delivered by restructuring existing arrangements⁹.

⁵ The target is to “make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions”.

⁶ As set out in “Making It Happen: The Northern Way”, Office of the Deputy Prime Minister, February 2004.

⁷ “Decentering the Nation: A radical approach to regional inequality”, Ash Amin, Doreen Massey and Nigel Thrift, Catalyst, September 2003.

⁸ “New Localism: Refashioning the centre-local relationship”, Dan Corry and Gerry Stoker, New Local Government Network, October 2002.

⁹ “The Adaptive State: Strategies for personalising the public realm”, Tom Bentley and James Wilsdon, 2003.

2.15 Parallel devolutionary changes can be seen in the Government's approach to managing public service delivery. While public sector delivery reforms after 1997 were characterised by a system of targets and central monitoring, the Government is now moving towards more delegated arrangements, with greater freedoms and autonomies rewarding good performance by local authorities and delivery agents within a clear framework of national standards and accountabilities. The key issue of how to manage performance within a more delegated system has been the subject of a Treasury-led review on devolving decision making.

2.16 What is the relevance of these developments to my review? Further decentralisation is unlikely to satisfy the hunger of those who crave for full political devolution. Devolution would certainly hasten the geographical dispersal of government functions and for some functions of government it might be the best way of achieving such dispersal. But the capacity for decentralisation to change the relationship between government and people cannot be overlooked. I was struck that the Scottish Executive's policy of relocating its functions was linked with a concern to ensure its political legitimacy outside Edinburgh and Glasgow.

2.17 It is noteworthy that in Scotland and Wales devolution democratised a machinery of government that was already devolved administratively. One lesson for England might be that devolution will work best where decentralisation has first established a sound administrative basis for government. This would also fit with the message I heard during my review that the machinery for the local delivery of national programmes is often patchy and under-resourced, and might be enhanced, for example, by bringing together national and local programmes in "one-stop shops".

2.18 One clear choice for strengthening this machinery is to build on existing regional infrastructure. Since 2000, the Government has taken steps to strengthen the Government Offices (GOs) in each of the English regions. The GOs are now the key representatives of central Government in the regions and the number of Departments represented in them has grown from three in 2000 to ten in 2004, with over 3000 staff. They contribute to more than 30 high level Government targets; manage programmes (especially cross-cutting ones) and expenditure of nearly £9 billion per annum; and help to coordinate policy development and delivery at regional level, supported by the Regional Coordination Unit (RCU).

History of government dispersal

2.19 Are there lessons to be learned from past government relocation initiatives? The dispersal of state functions from London and the South has a long history, including some notable relocation drives following the Flemming (1962) and Hardman (1973) reviews and in the wake of the creation of executive agencies in the late 1980s. These are described in Annex E. They moved tens of thousands of jobs, permanently changed the geography of government business, and demonstrated what could be achieved with a will (though they moved fewer jobs than predicted). Hardman's conclusion that relocations have greater impact when clustered around a limited number of locations remains valid (chapter 4). In one sense, these past exercises are therefore an inspiration.

2.20 But they were also creatures of their time. It is noteworthy that they occurred once a decade or so, symptomatic of a stop-go approach, rather than one in which locational considerations are integrated into mainstream government business planning. The dispersals since the late 1980s have been more explicitly linked with the search for efficiency by business-focussed operations (often executive agencies), and those since 1997 have been mostly incremental, based around the growing network of Government Office for the Regions and Regional Development Agencies. But the energy and focus of government as a whole has not been applied to the question of location and it is doubtful that the opportunities have been pursued to the full (as I explore in more detail in chapter 5).

2.21 The Hardman dispersals in particular helped to promote a rather narrow view of “relocation” as the transfer of self-standing clerical functions from one part of the country to another – a kind of bureaucratic chess game. Hardman’s pre-determining of alternative locations also had a chess-like quality. Nowadays, functions are likely to change as they move; there are multiple modes of dispersal (devolution, regionalisation, outsourcing to name but three); the opportunities are not limited to junior grade executive operations; and choice of locations by central diktat is unrealistic. The whole notion of “relocation” is outdated. A new terminology is needed to match the new thinking. In later chapters I advance the notion that we are better thinking about “the locational dimension to business planning”.

2.22 Other countries have pursued programmes of dispersal, including the Scottish and Welsh devolved administrations and, further afield, Ireland, France, Germany, Japan and Norway among others. Across the board, these countries have looked to dispersal to deliver savings, modernisation and a better balance between centre and regions. A sample of experiences and lessons to be learned is set out in Annex D.

2.23 I have in particular noted experiences which exemplify the automatic triggering of relocation reviews (Scotland); dispersal as a stimulant to research-based centres of excellence (France); a focus on moving headquarter functions, agencies and regulators (Ireland and Norway); and dispersal as a means to improve government resilience in emergencies (Japan).

3

The impact on government business

Summary

This review provides fresh evidence of the gains in efficiency and service quality which can result from locating government activities out of the overheated South.

- Recruitment and retention of staff in London is difficult: the Government has had to take measures to deal with shortages of key workers. Housing is a particular problem, with average house prices in London about double the levels in many other parts of the country.
- London business costs are high. Public sector wages are 26 per cent higher in central London than the UK average. The average cost of a workstation in London was more than £13,000 in 2002: nearly twice as expensive as the rates outside London and the South East.
- Organisations moving business out of London have recorded annual savings of 20-30 per cent, sharp reductions in staff turnover – in one case from 23 per cent to four per cent – and improvements in service quality, productivity and business processes. Cost modelling by this review suggests that the savings over 15 years could be very considerable.

Building the business case for relocation is a complex process, with many factors to consider, including the impact on staff. The evidence points to four factors in particular being vital to maximising the business benefits:

- Moving location is a critical opportunity to make fundamental changes in business processes, working methods and culture.
- Leadership and good management are critical to the execution of a relocation and its subsequent success.
- Relocation entails up front costs and risks, but coordination across government will lower the costs of early exits from London leases, reduce the need for redundancy and contain the risks of overheating property and labour markets in regional locations.
- Aligning pay with local market conditions will increase the cost savings, while helping to maximise the economic benefits for receiving locations.

Introduction

3.1 This chapter reviews the factors that build up the business case for relocating out of London and the South East, and considers the lessons learned from earlier relocations – the benefits and the problems – drawing on the research which I commissioned from *Experian Business Strategies*¹.

¹ 'The Impact of Relocation – a report for the Independent Review of Public Sector Relocation', Experian Business Strategies, January 2004 available at www.hm-treasury.gov.uk/lyonsreview

3.2 The starting point, of course, is London – a global city with (despite some fluctuations) a robust and growing economy and GDP per head substantially in excess of other parts of the UK. Alongside this success comes problems of overheating: high business and living costs; skill shortages in essential public services; and congestion. I was keen to flesh out this familiar picture with recent evidence.

Staffing costs, recruitment and service quality

3.3 London is a difficult place to find and keep staff, especially key public sector workers. 84 per cent of public sector respondents to a 2003 survey² reported staff recruitment and retention problems, compared to 72 per cent in the private sector, with problems worst in London. A 2002 Treasury³ survey highlighted recruitment and retention difficulties in professional occupations across the public sector. Experian observed that recruitment and retention difficulties were one of the factors that motivated several prominent government relocations.

3.4 There is a surprising lack of good data on staffing problems, systematically collected and categorised by sector, region and occupation group – a problem that has been noted by the Treasury and the Audit Commission. I was particularly dismayed to discover that, with very little exception, government departments did not seem to be rigorously tracking vacancy rates or other indicators of staffing difficulty, despite the requirement to produce pay and workforce strategies. This is a deficiency which needs to be addressed.

3.5 There is, however, no doubt of the problem and the extent to which the Government has needed to intervene, for example to improve access to affordable housing for key workers. London and the South East are the most expensive regions to live, and Table 3.1 illustrates the high costs of London housing. There are also problems with transport and congestion as set out in more detail in chapter 7.

Table 3.1: Average house prices by region, 2003

Region	Average house price (£)
Greater London	260,658
South East	205,109
South West	176,092
East Anglia	155,364
West Midlands	139,227
East Midlands	132,893
Yorks & Humber	112,350
Wales	111,272
North West	110,135
North	102,074

Source: HM Land Registry, Q4-2003

² 'Recruitment and Retention 2003' Chartered Institute of Personnel and Development, 2003.

³ 'Cross Cutting Review of the Public Sector Labour Market' HM Treasury, November 2002.

3.6 Considerably higher pay, reflected in London weighting and underlying wages, is necessary to recruit staff of suitable quality and to counter the higher costs of living in London. Table 3. 2 illustrates the premiums that are paid in London against UK average salaries, while table 3.3 gives a more detailed regional comparison.

Table 3.2: London premium in the public and private sectors⁴

	Public Sector (per cent)	Private Sector (per cent)	Private Sector Excluding City (per cent)
Central London	26	41	37
Inner London	24	37	33

Source: National Statistics/University of Warwick Institute for Employment Research

Table 3.3: Regional wage relativities

Region	Wage Relativity (per cent, Oswald, using 1996-2001 data)	Wage Relativity (per cent, Frontier Economics, 1997-2001 data)
Inner London alone	37.8	36.3
Outer London	23.6	23.5
Rest of South East	13.2	13.7
West Midlands	5.0	5.2
Greater Manchester	4.5	4.6
West Yorkshire	4.3	5.2
East Anglia	3.5	4.5
East Midlands	1.8	3.1
South West	0.9	3.4
Tyne and Wear	0	0
Merseyside	-1.4	0.0
South Yorkshire	-3.6	-0.2

Note: All estimates are relative to The Region Tyne and Wear

3.7 While the private sector can seek to benefit from differentiations in local and regional pay, the public sector – relying on national pay agreements – has had much less flexibility. One consequence is that it is difficult to match private sector London premiums – as table 3.2 shows. This may help to explain the particular recruitment and retention problems faced by the public sector. *Experian* noted that the public sector sometimes adapts to London conditions by filling posts at a higher grade than would be necessary in the rest of the country.

⁴ Average standardised spatial wage differentials from New Earnings Survey for 1999/01 rounded to the nearest percentage. ‘Central London’ is Camden, City, Islington, Lambeth, Southwark, Tower Hamlets, and Westminster. ‘Inner London’ is Central London plus Kensington and Chelsea, Lewisham, Newham, Haringey, Wandsworth, Hackney and Hammersmith.

3.8 Pay flexibility is obviously also key to maximising the efficiency savings available by employing staff outside London and the South East. There is considerable evidence that public sector pay, tied to national frameworks, is higher than in the private sector outside London, for comparable jobs at junior grades. The Government is now emphasising the need for public sector pay to incorporate the local and regional responsiveness that is necessary to deliver efficient public services. I shall show in Chapter 4 that regional economic considerations also point to the need for more flexible public sector pay policies.

“It is by requiring reform as a condition of resources, by measures[ranging] from more flexible labour markets ... to public sector pay linked to performance... that we will be able in the next spending round to ensure money is well spent and deliver new resources to our front line public services.”⁵

3.9 But there is a bigger prize than capturing wage differentials alone. By moving into less overheated labour markets employers can reduce turnover and make additional savings in recruitment and training. Crucially, reduced turnover can also improve service quality. *Experian* has highlighted this effect in practice, and I shall come to it shortly.

Accommodation costs

3.10 Rents, rates and service charges are materially higher in London than in the rest of the United Kingdom and this holds true for much of the South East, although it is important to recognise that there are significant disparities within these regions. *King Sturge* property consultants provided a comparative analysis of office rents, rates and servicing costs that highlights the disparities across the UK in 2003.

Table 3.4: Prime office costs in major UK cities

Location	Prime rent £'s per sq/m	Service charge £'s per sq/m	Rates £'s per sq/m	Total occupation cost £'s per sq/m
London: West End	710	81	194	985
London: City	511	81	183	775
Birmingham	280	54	92	426
Bristol	248	54	75	377
Manchester	269	48	81	398
Glasgow	248	48	75	371
Edinburgh	269	43	108	420
Cardiff	194	43	54	291

Source: King Sturge Global Industrial and Office Rents Survey, Q2-2003

3.11 For the lay person the total cost per head of providing work space is a more understandable measure. A 2002 survey revealed that the average cost of a workstation in London was £13,134 compared with an average outside London and the South East of £7,934⁶. The Department of Environment Food and Rural Affairs, which is pursuing a programme of estate rationalisation, provides a similar picture for its own accommodation costs, with a workstation in London at £10,230 per annum against a country average (including London) of £6,800.

⁵ Speech by the Chancellor of the Exchequer at the CBI national conference in Birmingham: 18 November 2003.

⁶ ‘The Total Office Cost Survey 2002’, City University Business School, Actium Consult and Cushman & Wakefield Healey & Baker, 2002.

3.12 The potential savings on premises could be larger if the relocated activity is transferred to an out of town location rather than being based in prime city centre space, or indeed to certain smaller towns (an issue addressed by *King Sturge* in their locational comparisons described in chapter 7).

3.13 Again, there is a bigger prize on offer than cost differentials alone. By using relocation as an opportunity to improve the use of working space – for example through open plan working, hot desking or hoteling – employers can reduce the per capita accommodation requirement, making additional savings and improving productivity (and, if it is well managed, also improving working conditions). British Telecom provide an example of such an approach, which is in the box below. Relocation also offers an opportunity to achieve greater environmental sustainability in the use of buildings and estate.

In 1993 British Telecom began a programme of estate rationalisation and modernisation to reduce the inefficiencies of maintaining a property portfolio that included 95 buildings in London alone.

British Telecom used the programme as an opportunity for organisational transformation through the adoption of flexible working practices such as hot desking and wireless working. By October 2003 British Telecom had been able to reduce its reliance on London desk space by two thirds from 10,000 to 3,000 and had seen a material reduction in absenteeism amongst those who use remote working for at least some of the time to 3.1 per cent against the United Kingdom average of 8.5 per cent.

3.14 A number of respondents to my consultation commented that London property prices were at near record levels and questioned whether significant disparities in office costs across the United Kingdom would be sustained. I conclude from the evidence that such differentials are likely to be enduring. Firstly, the history is of high, persistent differentials, as table 3.5 illustrates. The table expresses London rental costs as a multiple of those prevailing in other cities over time. For example in 2002 a building in Birmingham that cost £1 million per annum in rent would cost £1.9 million in London.

Table 3.5: Victoria/Westminster office rents as a multiple of regional rents

	1976	1980	1984	1988	1994	2000	2002
Birmingham	3.2	2.6	2.4	3.3	1.2	2.2	1.9
Leeds	2.0	2.5	2.5	3.4	1.3	2.5	2.3
Manchester	2.3	3.0	2.8	3.9	1.5	2.5	2.2
Nottingham	3.6	5.0	4.6	6.1	2.4	3.7	3.5

Source: *Experian Business Strategies*

3.15 London's commercial property market is cyclical and the snapshot for 2002 captures data from close to the peak market period. At this point one might expect London office rents to have been an unusually large multiple of rents in other cities; but the table shows this is not the case, and that London office space has persistently been more expensive, despite some cyclical fluctuations. The past is not an infallible guide to the future, but the optimistic forecasts for economic and labour market growth in London highlighted in the next chapter are reasons for thinking that demand for London office space will remain high in the coming years, helping to keep prices up.

Modelling costs and savings

3.16 *Experian's* research explored the potential cost saving for departments. They found that reductions in overhead costs were an important motivator for relocations, and that savings of between 20 and 30 per cent per annum were common, as a result of the absence of London weighting; lower underlying wage rates; more appropriate grading; lower accommodation costs; and the economies of scale produced by centralisation and rationalisation of property. The findings are set out more fully later in this chapter.

3.17 There are, of course, also up front costs associated with relocation, including the costs of moving staff, acquiring and fitting out new premises and recruiting local staff. Large penalties can be incurred by vacating premises before leases expire or reach break points, and staff who do not relocate may need to be made redundant. Many of these costs can be avoided if the model of dispersal adopted is one that emphasises the location of new activities outside London and the South East, rather than the relocation of existing activities.

3.18 My review developed a model to illustrate the likely costs and savings associated with dispersing 20,000 posts from London, assuming the dispersals were spread evenly over seven years. Details of this model and the underlying assumptions, which reflect the factors discussed in this chapter, are at Annex C. Though they do not draw directly on the cost information that departments themselves provided (which was incomplete and difficult to aggregate), the results are broadly consistent with the business cases emerging from departments.

3.19 The model suggests that the upfront costs of removing 20,000 posts from London and carrying out the activity elsewhere in the United Kingdom would be approximately £940 million over the seven years. Savings generated by relocation over that period offset these costs to a significant extent and the costs are fully paid back after six years. The permanent annual savings in the longer term would be £377 million. Over a 15 year period cumulative, discounted net savings would be in excess of £2 billion. The additional savings as a result of greater coordination across government are presented later in this chapter. There has been no attempt to model the additional impact of moving towards more market-sensitive local pay rates, but undoubtedly there would be further savings.

Lessons learned from earlier relocations

3.20 *Experian* looked at ten public sector relocations, and seven in the private sector. A summary of their research is in the box below. *Experian* noted that these relocations had not been well documented at the time, and tracking the relevant material for my review was a considerable task. They concluded that the evidence base underpinning current relocation practices is small: academic literature in this area is limited, and few organisations conduct rigorous post-occupancy evaluations to determine whether the projected benefits are delivered and then maintained in practice. This is a deficiency to which I return in my recommendations.

Experian on lessons learned from relocation

The work was based on a series of interviews with senior staff from ten public sector bodies and seven private sector companies, these were:

- In the public sector: the Benefits Agency; Customs and Excise; Defence Procurement Agency; Department for International Development; Department for Trade and Industry; Department for Education and Skills; Department for Work and Pensions; Highways Agency; Inland Revenue and Patent Office;
- and in the private sector: Abbey National; Amersham International; Barclays Bank; London Electricity (now EdF Energy); Thames Water; Unilever and GUS.

Key findings on the lessons learned were:

- Savings in operating costs, especially pay and accommodation, were a key driver, and annual savings of between 20 and 30 per cent were typical.
- Organisations benefitted from improved labour markets outside the South East. At more junior grades particularly, there was a good supply of able staff. This drove up service quality; reduced turnover and associated recruitment and training costs; and facilitated the introduction of new working practices and new cultures.
- If benefits were to be maximised, relocation had to go hand in hand with changes to the way the business was done ('process re-engineering').
- Strong and committed leadership at the very top of the organisation was crucial to success.
- Rigorous planning and monitoring, and good communication were vitally important.
- Successful relocations could be undermined, although the problems were largely avoidable with good planning, use of ICT, and measures to combat cultural resistance. The main issues were: the erosion of cost savings; the development of 'them and us' cultures between relocated staff and the centre; frequent travel back to London for meetings; and the reluctance of senior staff to relocate.

Service improvements

3.21 A number of key themes are worth picking out of the *Experian* findings. Firstly, it is clear that moves out of London generated not only cost savings but service improvements for customers. Organisations including the Department of Health, Thames Water, Overseas Development Agency (now Department for International Development) and the Patent Office experienced this effect.

Patent Office case study⁷

In 1988 the Patent Office announced that they would relocate from London to a new building in Newport, Gwent to obtain savings on accommodation, staff and running costs. The relocation was consistent with the Government's announcement in March 1988 that departments should review the location of their work to secure cost savings and wider benefits.

In 1994 the National Audit Office analysed the benefits that the Patent Office had begun to realise from their relocation. They reported that the Patent Office achieved accommodation savings of £3.1 million per year and annual staff savings of £2.9million.

These staff cost savings were twice as great as the Patent Office had hoped for. The local labour market proved to be both wider and deeper than anticipated, allowing more posts to be filled with local candidates and more quickly than forecast.

The key factor in the significant staff cost reductions proved to be the material improvement in staff retention levels that the Patent Office experienced, with a sharp fall in recruitment and training costs. In 1987, the last full year in which the Patent Office was wholly based in London, staff turnover at service grades was 23 per cent. In 1992-93 turnover for the equivalent grades for Patent Office staff in Newport was four per cent.

The National Audit Office conducted a post occupancy survey of the Patent Office's key working contacts to determine whether relocation had impacted on the quality of service delivered to customers. They found that response times and quality of service delivered were both perceived to have improved. This was partly as a result of changes in the way that customers contacted the Patent Office, shifting away from face to face meetings toward email and the telephone, and also through the introduction of a standardised method of dealing with the Patent Office.

Gains from wider re-engineering

3.22 One of Experian's most important findings was that relocation could secure maximum benefits when savings in overheads were pursued alongside measures to re-engineer processes, introduce improved ICT, develop new working practices, and change the prevailing culture. This approach has been particularly well exemplified by the big service departments: the Inland Revenue, Customs and Excise and Work and Pensions, and in the private sector by firms like Thames Water.

3.23 The Defence Procurement Agency showed how the relocation of a number of disparate functions to a single location allowed for an investment in information technology and a corresponding radical change in working practices that would have been much less likely without the initial relocation.

⁷ Report by the Comptroller and Auditor General, 'Relocation of the Patent Office', 16 February 1994.

Defence Procurement Agency case study

The creation of the Defence Procurement Agency brought 6,000 staff from all branches of the armed forces and locations including London, Bath, Portsmouth and Portland together on a single site in Abbey Wood, Bristol.

The relocation to a single site led to a reduction in accommodation costs and lower staff turnover. However, more importantly, the relocation provided an opportunity for Defence Procurement Agency to introduce new information technologies and fundamentally redesign business processes to improve the way procurement took place and ensure that the acquisition process became faster, cheaper and better.

The introduction of a completely new IT system that integrated project, contract, financial and personnel management functions allowed the Defence Procurement Agency to implement a Smart Procurement Process with Integrated Project Teams consisting of MOD civilian and military acquisition staff, representatives of industry, the Service customer and those responsible for the support of the equipment through life. This new way of working has increased flexibility, allowed the earlier recognition of risks and a clearer understanding of the lifetime costs of a project and has transformed the acquisition process from an adversarial relationship between supplier and contractor to a collaborative approach.

This transformation of the procurement methodology could only occur with the structural and information technology improvements, and the Abbey Wood relocation was key to that investment.

3.24 *Experian* felt that a narrow focus on cost reductions had limited the eventual relocation benefits for some organisations, and that it was important to view relocation as a potential spur for much wider improvements:

“failure to approach relocation with a view to securing business change is tantamount to ignoring very material benefits in terms of cost savings, improved efficiency and customer service”.

Managing problems

3.25 *Experian* identified a number of risks to sustaining a successful relocation, emphasising that they could all be largely overcome with careful planning and management. Each of these risks raises fundamental issues which I explore in later chapters. I set them out here, along with *Experian's* views on how they should best be mitigated.

3.26 First, there was the problem of overheating. If a number of employers converged on a single location where there was a limited labour market and limited office accommodation, the increased demand could push up the cost of labour and office space, and over time, the initial savings could be eroded. This was more of an issue in junior grade work, and particularly true of call centre operations, where staff were quick to switch employer for a marginal increase in pay. In relation to policy work, *Experian* concluded that locations with a high proportion of managerial or professional jobs would act as a magnet for graduates, and that supply and demand would be more balanced.

3.27 The benefits of clustering and associated risks of overheating are also relevant to the economic impact of relocation and I consider them in chapter 4. *Experian* judged that “*good local market intelligence, coupled with coordination of public sector relocations at the centre, would help avert the risk of localised overheating caused by a large number of jobs moving to the same location.*” The importance of coordination is a theme to which I return later in this report.

3.28 *Experian* also noted the risk of ‘twin cultures’ emerging. Staff at new sites could feel marginalised, and this reduced motivation and commitment. As one interviewee put it: “*We were treated like a lost tribe – and started to behave like one*”. Matters were likely to be worse if few senior managers were located at the new site. The problems were not confined to the new sites. The investment and senior staff time put into the move could cause others to feel neglected, while variations in standards, for example in office space or equipment, could also cause problems. One company found that the success of the relocated team bred jealousy elsewhere in the organisation because of perceptions that the relocated team were receiving preferential treatment.

3.29 ‘Twin cultures’ could be mitigated through strong and visible leadership, investment in links and networks, and consistency of treatment across all sites. Managers needed to recognise the extra effort needed to ensure that distance from the centre does not weaken the unity of the organisation. It required sustained attention from senior staff, with a strong focus on visibility. A number of organisations emphasised the importance of visits from Board members, to communicate key corporate messages and values. *Experian* also stressed the value of shared events, such as seminars, joint training and away-days, to build a sense of shared objectives and corporate values.

3.30 A key lesson to draw from this is that to be viable, sites outside the centre need sufficient senior presence. This can be difficult in the civil service, where the culture is one in which senior careers are developed in London. *Experian* also found that if there were too few senior staff, they could feel isolated and “out of the loop”. This is issue which I explore later in the report.

3.31 Finally, *Experian* highlighted the burden of travel to London by those located in the new site. Excessive travel to London is time consuming and reduces productivity. It places a physical strain on those who do it regularly, and it is difficult to reconcile with a family friendly approach. *Experian* found that, in planning moves, organisations regularly under-estimated the cost and impact of travel. The problem was not just one of forecasting but a Whitehall meetings culture which *Experian* felt, despite the adoption of videoconferencing by some departments, had not been exposed to sufficient challenge: “*There is little evidence of any concerted effort to reduce the number of meetings or to make them more convenient to staff who are not based in London. The travel burden is in no way equally divided.*”

Conclusion: building the business case

3.32 This chapter has highlighted some of the key business benefits that can arise from dispersing activities away from London and the South East. Building the business case is complex and there are many factors.

3.33 I have shown that departments need to consider:

- cost differentials in staffing and accommodation, taking account of improved recruitment and retention opportunities outside London and the South East, and the scope for greater pay flexibility to enhance the benefits;
- the possibility of service delivery improvements and the rationalisation and re-engineering of business processes;
- management issues associated with ensuring organisational coherence across physically distant sites.

3.34 Departments must also consider timing issues. There are arguments for and against proceeding slowly and taking a “big bang” approach. Relocation may risk disrupting wider organisational changes or alternatively be a way of hastening them. A phased dispersal may get costs down by taking advantage of lease breaks to avoid exit penalties, and of natural attrition to avoid making people redundant. But a phased dispersal is also more at risk of becoming bogged down. A key point is that dispersing activity can be achieved not only by relocating existing functions, but by taking care to locate new functions outside London or the South East to start with. This may take longer, but will avoid many of the costs associated with relocation.

3.35 In later chapters I explore the relevance to the business case of decisions about who, and who not, to relocate and about the choice of alternative locations and sites. A key conclusion of this report is that the ability of the Government to coordinate decisions on location will determine how successfully the further dispersal of functions will serve the Government’s objectives, including efficiency. The departmental business case will be improved to the extent that coordination of moves reduces lease exit penalties and redundancy costs, and allow a more joined up approach to office procurement out of London.

3.36 By factoring cautious assumptions about the impact of better coordination into the financial model described above, it is possible to illustrate the likely improvements to the business case. Upfront costs in the review’s model are reduced from **£940 million** to **£650 million** and the payback period is reduced from **six** to **five** years.

4

The impact on communities

Summary

Dispersal of government jobs is likely to have positive knock on effects for regional economies, with direct spending by departments and their employees creating jobs in addition to those relocated. Experian found that this additional impact ranged from neutral, to one extra new job created for every two moved.

The economic benefit is likely to be maximised where functions are clustered in a limited number of locations, rather than widely dispersed, and where pay is aligned with local rates. Failure to align public sector pay closer to local rates could undermine any positive effect.

Dispersal can have wider economic and social impacts. There is some case study evidence pointing to the benefits of clustering senior level jobs in one city (Sheffield), of the contribution to urban regeneration (Edinburgh, Leeds), and of wider spin-offs for private sector investment, skills and enterprise (Exeter).

The research base needs enriching and the Government would benefit from a clearer evidence-based view of the likely benefits and of the best ways in which public and private agencies can co-operate to lock these benefits in.

The dispersal of public sector jobs is unlikely to have a long-term negative effect on London, and might even be of net benefit, for example in relieving congestion and some of the growing pressure on the labour and housing markets. There ought not to be a net harmful impact on public sector staff who are from ethnic minorities, or who live in deprived areas of London, but employers will need to proceed with care, taking full account of the personal circumstances of their staff.

Where job opportunities are scarce and localised, and government is the principal employer, it is much less clear that relocating those government jobs is justified economically and socially. Such circumstances are typical of certain deprived communities in the South East, for example in Hastings.

Introduction

4.1 In this chapter, I examine the economic and wider social impacts that a new geographical pattern for public sector activity might have on receiving locations, as well as on London and the South East. I retained *Experian Business Strategies* to assess these impacts, and I took account of other evidence, including that submitted in response to my consultation exercise.

Economic analysis

4.2 *Experian* reviewed the existing academic literature in this field and carried out post hoc modelling and evaluation of two further case studies – Leeds and Newport. One early conclusion was that surprisingly little evaluative work of this kind has been done before. *Experian* also examined the multiplier effects of previous relocations. Multiplier assessment is an analytical tool for assessing whether activity transferred to an area has an economic impact that is different to (either larger or smaller than) the number of jobs tied directly to the relocated activity.

Multiplier analysis measures the combined impact of:

- jobs created because the relocated body purchases goods and services in the area (the indirect effect);
- jobs created because employees of the relocated body spend money in the area (the induced effect);
- jobs lost because the incoming employer reduces the number of people working for existing employers (the displacement effect or “crowding out”). This can happen because competition for staff increases and existing employers lose staff to the incomer. If the incomer pays more than local rates (particularly likely in the public sector), such competition is more likely to drive up local wages, reducing the propensity of the private employers to take on staff.

4.3 A multiplier value of ‘one’ implies no impact on the area concerned over and above the number of jobs relocated – the extra economic impact is neutral. This does not rule out impacts not captured by multiplier analysis (e.g. a boosting of skills and productivity) or other social effects discussed below. A multiplier of more than one indicates that increased spending in the area as a result of the relocation has created more jobs than were lost through displacement.

4.4 Sir Henry Hardman in his 1973 report on dispersal asserted that the multiplier was likely to be exactly one. I was eager for *Experian* to revisit his findings, given the changes that British economy and society had experienced in the ensuing thirty years. *Experian* concluded that Hardman’s assumptions no longer held in some important respects:

- Hardman thought that there would be little positive effect derived from a department’s local purchases of goods and services, and from employees’ local spending. *Experian*’s study suggested otherwise.
- Regional disparities in unemployment, and overheating and congestion in localised areas, imply that the UK as a whole will benefit more than Hardman suggested.
- *Experian* were more optimistic than Hardman about the prospects (given the right circumstances) for minimising crowding out effects.

4.5 *Experian's* review of the literature, together with their own case studies (the relocation of the Patent Office from central London to Newport in the early nineties, and of the Department of Health and Social Services from London to Leeds in 1991) revealed multipliers ranging from 1.0 to 1.5. A multiplier of 1.5 is very substantial, indicating that for every two jobs moved, a further job is created. Table 4.1 shows the results. A number of submissions to my public consultation proposed economic multipliers ranging from 1.15 to 2.2 for specified areas as a result of previous relocations.

Table 4.1: A Comparison of multiplier estimates in the UK

Relocation	Year of Study	Multiplier Estimate
ONS estimate	1995	1.5
ODA (East Kilbride)	1988	1.25
English Partnerships (major projects)	1994	1.29 1.38-1.56
Enterprise Zones (various)	1995/2000	1.05-1.15 1.3-1.7
Scotland (various)	2001	0.67-1.5
Patent Office (Newport)	2003	1
DHSS (Leeds)	2003	1.3

Source: 'The Impact of Relocation' A Report for the Independent Review of Public Sector Relocation. Experian Business Strategies, January 2004.

4.6 *Experian* found that the benefit to the receiving location depended crucially on the extent to which relocated public sector jobs would drive up local pay, thus making other employers cut back jobs. They found that the extent of such displacement depends on: the available spare capacity in the local labour supply; the number and the type of posts relocating; and the flexibility of public sector pay arrangements. The tighter the local labour market, the more displacement, and the less overall benefit to the local economy.

4.7 The *Experian* verdict on pay is in the box below. They warned that failure to align public sector pay with local market conditions risked undermining any positive economic impact. There are clear implications for departments here, which I pick up in later chapters. The economic arguments for flexible pay are of course consistent with the business case, which is likely to be enhanced by realising the cost savings arising from regional wage differentials.

Experian on public sector pay

“pay rates for junior posts in the public sector (administrative and clerical) are more likely to be out of line with local rates and are therefore likely to lead to the loss of more private sector jobs; more flexible regional pay would counter this effect.”

Experian also found that there were good economic grounds for relocating higher grade posts, and that this worked best by ‘clustering’ relocated functions in or around a single location, or set of locations:

Experian on clustering

“The more senior posts involved, the greater the economic benefit to the receiving location, because higher grade staff tend to be better paid and to have more disposable income to spend locally. In addition they are more likely to move with their post, or be based outside the area and travel longer distances to work, so they will not be exacerbating competition for local labour.”

Experian go on to argue that clustering is likely to be a key factor in encouraging senior staff to relocate.

“Staff may feel there are more options open to them if there is a concentration of public sector work in the area, and senior staff will be attracted if there are more upward career paths outside London. Clustering may also offer more scope for employment of spouses and partners.”

Clustering may also increase the multiplier effect:

“Another positive effect is that clustering can encourage support services, such as IT support or related consultancies, to relocate or develop in the area. And there may be potential for departments to exploit economies by way of shared premises and services.”

4.8 Clustering may have wider impacts, such as helping to develop a strong, effective and joined up public sector at regional level, reducing the perception of “remote” government, boosting skills and improving civic engagement. These are discussed below. The contribution that clustering might make to enticing senior people out of Whitehall, which Experian find significant, is a theme I pursue in later chapters.

4.9 There is a downside to clustering – one can have too much of it, as explained by Experian below:

“Clustering does however suggest a large number of jobs being moved to a single location, which presents a greater risk of driving up wages and tightening the labour market. We found a few overheating regional centres where further relocation would not be welcome by existing large employers, especially if public sector pay rates remained out of line with local rates. Equally, there are examples such as Leeds and Sheffield where public sector clusters have proved a success and have made a positive contribution to local prosperity.”

But they conclude that on balance, *“despite the potential for local ‘overheating’, there were considerable benefits to be derived from this approach.”*

4.10 This is clearly an area that merits further research, given the paucity of previous analysis. I do not claim that *Experian's* analysis is the last word, but their conclusions so far appear to have been supported by others. At my behest *Experian* presented their emerging findings to a gathering of relevant academics who were in broad agreement with their argument. Two substantial responses to my consultation from the Regional Development Agencies, prepared by the Centre for Urban and Regional Studies (CURDS),¹ and from the Core Cities,² supported the *Experian* conclusions on clustering. The Core Cities see clustering as a way of strengthening the economic base of major English cities which can also drive the growth of the wider region. This view is supported by research on European cities produced for the Core Cities.³

4.11 One note of dissent is struck by CURDS who argue that aligning public sector pay with local market conditions will tend to depress overall pay levels, thus missing the opportunity to boost regional growth by pushing up wages. The key question of course is whether such a wage-induced growth effect would be more than outweighed by displacement. While the balance of opinion in Government would appear to support the *Experian* position, I noted also that a number of responses to my consultation expressed particular concern about the adverse impact that large scale migration of public sector jobs might have on receiving locations if there were an imbalance in wage levels between local and incoming employers.

Wider impacts on receiving locations

4.12 What other impacts might dispersals have on receiving areas? In particular, I was keen to establish whether dispersal might boost productivity by raising local skill levels and bringing spare capacity into use; whether it could contribute to the regeneration of run-down areas; and whether there were other benefits resulting from an influx of professional, graduate-level people, for example in the quality of services, the level of local civic engagement, and other enhancements of social capital.

4.13 *Experian* were cautiously optimistic that dispersals could have long term impacts of this kind. The evidence submitted to my consultation on these points was surprisingly limited. Many respondents offered a case for their particular areas which went little beyond a “bid”, but there were some interesting exceptions.

4.14 That there are a wide range of potential benefits was illustrated by the response from Exeter City Council. They reported a significant range of economic, social, educational and cultural benefits delivered by the relocation of the Meteorological Office (Met Office) in 2003.

¹ Available at www.hm-treasury.gov.uk/lyonsreview

² Available at www.hm-treasury.gov.uk/lyonsreview

³ “Competitive European Cities: Where do the Core Cities Stand?”, Office of the Deputy Prime Minister, January 2004.

Relocation of Meteorological Office to Exeter

The relocation of the Met Office from Bracknell to Exeter involved a substantial new building, with many specialist features. 950 posts relocated, and 220 staff were recruited locally. The posts involved were relatively senior/professional. A detailed economic appraisal predicted an overall multiplier of 1.16; and an estimated £65m per annum added to Devon's GDP.

According to Exeter City Council the relocation has:

- Changed perceptions of, and confidence in, Exeter, boosting redevelopment of the city centre; including development on a site which had been derelict for many years;
- Anchored private sector investment, including London Electricity Customer Services (600 staff) and a new headquarters building for Norwich Union;
- Created (with its links to the University) a solid hub for the launch of a science park and a large contribution to the local 'knowledge economy';
- Raised the profile for the city which has helped support the expansion of services from Exeter Airport;
- Provided the impetus for a major modernisation of 5-16 education and a successful £80 million PFI scheme to rebuild all secondary schools from scratch by September 2005, as a result of the concerns of the Met Office about education standards;
- Contributed to local culture through Met Office sponsorship of the Exeter festival.

4.15 Both the CURDS and Core Cities submissions to my review examined wider impacts in considerable detail, echoing some of the points above.

4.16 The CURDS report draws on existing research, case studies, and new analysis. It concludes that dispersing government functions to areas where the regional economy is struggling can help address low demand, reduce unemployment and mobilise under-employed factors of production. It also concludes that dispersing more senior or professional posts will help enhance the 'regional knowledge pool', bolstering local/regional institutional capacity, and, in the long term, contributing to the improvement of educational achievement.

4.17 The Core Cities' analysis reaches broadly similar conclusions. It argues the case for relocating senior posts and higher level functions to create 'clusters' of public sector activity and influence, which can counter the pull of London, and retain valuable experience and knowledge in the regions. It also highlights the scope for dispersing research and development functions to develop regional centres of expertise. Sheffield is a good example of a city where the location of higher level central government functions in the early 1980s helped promote a cluster of public sector activity producing a wide range of benefits.

The impact of a public sector cluster: Sheffield

A range of policy and operational functions in employment and education were relocated from London to Sheffield in the early 1980s. A number of organisations and businesses followed, increasing the local 'knowledge pool' and skills, creating new jobs in the area, and supporting economic growth. Core Cities described the impacts as follows:

- The decentralisation prompted significant numbers of senior and aspiring staff to relocate to Sheffield; this pool of qualified staff facilitated the relocation of more education functions, as well as functions in DWP, DTI, and the Home Office;
- the University for Industry, the Sector Skills Agency, and a number of industry skills organisations chose Sheffield for proximity to the related policy functions;
- businesses with contracts from DfES located in Sheffield to maximise their market opportunities eg conference organisers, developers of training materials etc;
- a cluster of small spin out business and consultancies has grown up in the city started by staff leaving DfES;
- the public sector organisations in Sheffield and its region have been able to recruit or take secondees from the civil service, significantly widening the expertise available in the local labour market;
- local residents recruited into DfES have acquired policy skills and national horizons not normally found in the workforce of regional cities, which are fed out into the local economy through natural turnover;
- relocated staff enjoy improved quality of life, including lower property prices than London and shorter travel to work times. They are able to contribute their knowledge and skills to the local community through voluntary activities such as school governorships etc.

4.18 There is evidence that other countries recognise and have sought to capture these wider benefits. I was not able to conduct an exhaustive study of the international experience, but took note of a number of examples.

4.19 In **Ireland** a programme of decentralisation was announced in 1999, with the main aim of achieving more balanced regional development. Some 4,700 posts have been dispersed, with a further 10,000 proposed for relocation from Dublin (though this has aroused some recent controversy). In **France** some 30,000 public sector posts have moved from Paris in the last twelve years, one of the key drivers being to stimulate local economies. The French have also focussed on creating clusters of scientific and research functions which form strong centres of expertise and attract talented staff (eg Toulouse). In **Norway**, balanced regional development, and building regional skills and capacity are two drivers of the proposed relocation of some 900 jobs from Oslo. And in **Germany's** very decentralised structure, the Länder (broadly equivalent to regions) have relocated a number of functions away from regional capitals to help disadvantaged areas.

Urban regeneration

4.20 While there is a wide body of research covering the role of the public sector in leading urban regeneration, there appears to be much less on the contribution made by specific relocations to regenerating run down or deprived areas. Reflecting the central importance of job creation, much of what exists is in the form of multiplier analysis, as discussed above (e.g. the former Overseas Development Administration to East Kilbride, Health and Social Services to Leeds, the Patent Office to Newport). The review did find a good deal of anecdotal material supporting the broad principle that locating stable government employment in, or within reach of, a deprived area can bring wide benefits to the community. There would appear to be scope for more evaluation of the impacts on deprived neighbourhoods, on the wider social fabric, and on the preconditions for successfully using public sector relocation to promote regeneration.

4.21 A number of responses to my review mentioned that relocation had acted as a catalyst to draw in further investment, both private and public. This created further jobs and, in areas where new buildings were commissioned, contributed to improvements in the physical infrastructure. The Met Office move to Exeter was cited as an example of a significant and stable public sector presence providing an ‘anchor’ to help retain private sector employers, creating critical mass which encourages further investment.

4.22 Responses also highlighted the contribution of relocations to regenerating run-down areas. The successful relocation of the Inland Revenue and Capital One sparked a £200 million public and private sector regeneration of Nottingham’s canalside. In Leeds, the commitment to the development of Quarry House for the Department of Health (then DHSS), acted as a catalyst for wider regeneration of a the surrounding area. The relocation of a large number of Scottish Executive staff in Edinburgh from the city centre to Victoria Quay at Leith Docks made a significant contribution to the renewal of Leith.

Leith Docks

Leith Docks has been a poor relation to the historic and commercial heart of Edinburgh city centre and has had its fair share of social problems.

In the 1990s, the emergence of a regeneration strategy for the area – the Leith Project – accompanied by relevant public policy decisions and the availability of resources, provided a catalyst for a decision to relocate a large number of staff in the Scottish Executive to the former dockside at Victoria Quay. A 35,000 square metre building was opened in 1996 and approximately 1,600 jobs were located in the building.

This provided a clear illustration of Leith’s potential to change and helped to draw in further investment, particularly in retail, leisure, housing and further commercial development to the area.

(Source: Experian: ‘The Impact of Relocation’ January 2004)

Quarry House, Leeds

The establishment of the NHS Management Executive in a new purpose built office at Quarry House in 1992/93 was a significant development for Leeds. The site was a key strategic investment site for the city; representing a high value development opportunity at the edge of the city's core and adjacent to areas of multiple deprivation. The site was owned by the City Council, having previously been the location of a large complex of multi storey flats.

According to the City Council, the development of Quarry House:

- Acted as a catalyst for wider regeneration of the area, accelerating the 'masterplan' proposals for the whole of Quarry Hill, and establishing the credibility of the city with other developers in the early 1990s;
- Provided the lynchpin development for a major cultural quarter, which now includes the West Yorkshire Playhouse, BBC Regional Headquarters, the City of Leeds College of Music and a dance centre for Northern Ballet and the Phoenix Dance Company;
- Stabilised the local economy at a time of house price deflation and higher unemployment, and subsequently produced significant multiplier benefits through direct employment and individual and corporate spending;
- Provided a new breadth to public sector career opportunities, with individuals moving between different parts of the public sector in the city and wider region;
- Led to an increased profile for the city influencing other prominent investments including the Royal Armouries and Harvey Nichols;
- Contributed to Leeds becoming one of the fastest growing economies in the 1990s and beyond.

Source: Leeds City Council

4.23 It was also put to me that relocation will achieve greater impact when it takes place as part of a coordinated regeneration plan involving strategic partnerships in the city and the region. A coordinated approach was seen as necessary to ensure that a public sector presence draws in other tenants and boosts the confidence of investors. The Nottingham and Exeter examples mentioned above seemed to exemplify this approach.

4.24 A coordinated approach will also pick up other factors such as public transport, education and training. Inner city communities cannot benefit from jobs in outlying business parks without transport, nor can they take up posts unless they have a basic set of skills. In Cardiff, I was impressed that the local education establishments were prepared to tailor courses to facilitate the successful location of Legal and General activities.

Impact on London

4.25 London is a global city, with more than 7 million residents and more than 4.5 million people employed. Despite fluctuations in the economic cycle, London's economy is robust. In chapter 3, I examined the overheating effects that lead to skill shortages in essential public services, exacerbated by congestion, problems with public transport and high housing costs. London nevertheless remains a very attractive location for financial services and many other business sectors. The Greater London Authority (GLA) estimates growth of some 600,000 jobs by 2016. Accommodating this growth will be a significant challenge.

4.26 Despite the fact that across most of London there are more than four jobcentre vacancies per head of the population, rising to more than 12 in some boroughs, London has the second highest unemployment rate in the country, after the North East. This is reflected in the concentration of pockets of deprivation side by side with more affluent areas. London has 18 per cent of the 10 per cent most deprived wards in England⁴. London also has the greatest concentration of ethnic minority communities in the country.

4.27 I was eager to examine what impact the relocation of public sector jobs might have on this complex picture.

4.28 Hardman concluded that relocation would mean negative economic impacts on the donor region (ie London and the South East). But his report contains little evaluation of the impacts, and in 1973 London was less overheated and congested than it is today, and regional economic disparities were less pronounced. I asked *Experian* to consider the evidence for impact on London. They concluded that London's economy was so buoyant that (notwithstanding fluctuations in the cycle), public sector jobs lost in London were likely to be replaced by private sector growth, and there was unlikely to be a negative effect:

“Given the tightness in these markets, and the attractiveness of London to private investors due to its transport links, reputation as an international financial and business trading centre, and general economic robustness, at least in the long term, moving jobs out to other parts of the UK is unlikely to have significant negative long term consequences”.

4.29 Authorities in London were similarly optimistic about the impact of dispersal. The GLA noted that in the context of their job growth projections a relocation of some 20,000 public sector posts was likely to have a minimal impact. Indeed, they concluded that if new jobs produced greater economic output than public sector workers, then there could be a net benefit to London's economy. They see the challenge London faces as one of accommodating predicted growth in a sustainable way.

4.30 Growth projections for London are bound to add to the pressures I have set out above. Relocation of posts away from London will not remove these pressures, but might help relieve them at the margin. A number of respondents to my review, including the British Chambers of Commerce, supported the view that relocation would help alleviate pressure on housing, on development, and on transport congestion.

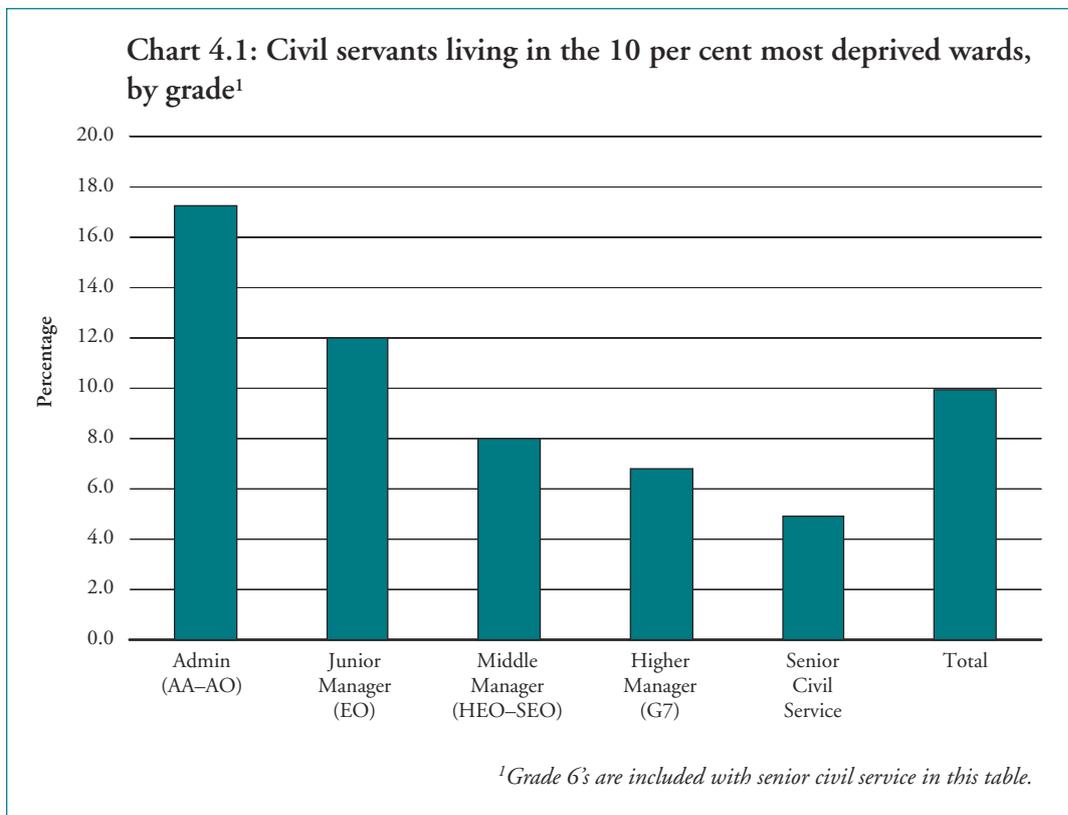
4.31 Accommodating growth also presents a serious challenge for public services in London. As I discussed in chapter 3, recruitment to essential public services is already difficult in London. Not only will there be more people for whom front line services must be provided, but in future I expect even more competition for those with the necessary skills. All the more reason for the public sector to be rigorous about who really needs to be in London.

⁴ According to the Indices of Deprivation for England, published by ONS.

Impact on deprived areas of London and the South East

4.32 In the context of London’s projected growth, and its current overheating, I conclude that relocation is likely to bring more benefits than otherwise. But could there be adverse impacts on deprived neighbourhoods in London? The civil service unions in particular expressed concerns about this issue. There are no centrally compiled data on where London’s civil servants actually live. I commissioned a limited review of the available material, and sixteen departments provided information on the postcodes and grades of some 20,000 staff. This is enough to give a broad indication of a wider pattern.

4.33 The survey indicated that *overall* civil servants were under-represented in deprived wards, with 10 per cent in the sample living in a deprived ward, compared to 18 per cent of the broader population. As might be expected, the higher the grade, the lower the likelihood of living in a deprived ward, but even the most junior staff were no more likely than the population overall to live in deprived wards. The chart at 4.1 shows the results.



4.34 These results suggest to me that relocation should not have a disproportionate impact on deprived areas. I recognise that any loss of jobs or opportunities for those in deprived areas is serious. But this has to be seen in the context of the overall growth predictions for London, which suggest that new opportunities will more than fill the gap left by relocation. I also take careful note of the evidence that worklessness in deprived neighbourhoods in London is related more to the barriers to work (such as skills mismatch, lack of public transport, and perceptions and behaviour of jobseekers themselves⁵) than to the availability of work.

⁵ This is covered in more detail in the report by the Prime Minister’s Strategy Unit, “The London Analytical Report” July 2003.

4.35 I have focussed most of the discussion so far on London. I know that there are also areas of significant deprivation in the rest of the South East and I received representations from East Sussex County Council, Hastings Borough Council, Locate in Kent, and Croydon Council on this point. In some of these areas, government is a dominant employer and job opportunities are otherwise scarce. That is a rather different set of circumstances to those prevailing in parts of London – and suggests that there is not a strong social and economic case for departments to relocate activities from these areas. There might of course be a compelling business case and that would need to be weighed accordingly. The case is less likely than in London to rest on cost, since labour and accommodation are likely to be more in line with national rates than London rates. But the availability of suitable staff might be an issue.

Impact on ethnic minority staff in London and the South East

4.36 London is home to a large proportion of the country's ethnic minority populations. 29 per cent of London's population comes from an ethnic minority, and nearly 48 per cent of all ethnic minorities in the UK live in London. For some groups, this figure is even higher – for example 80 per cent of Black Africans in the UK are in London, and 60 per cent of the Bangladeshi population.

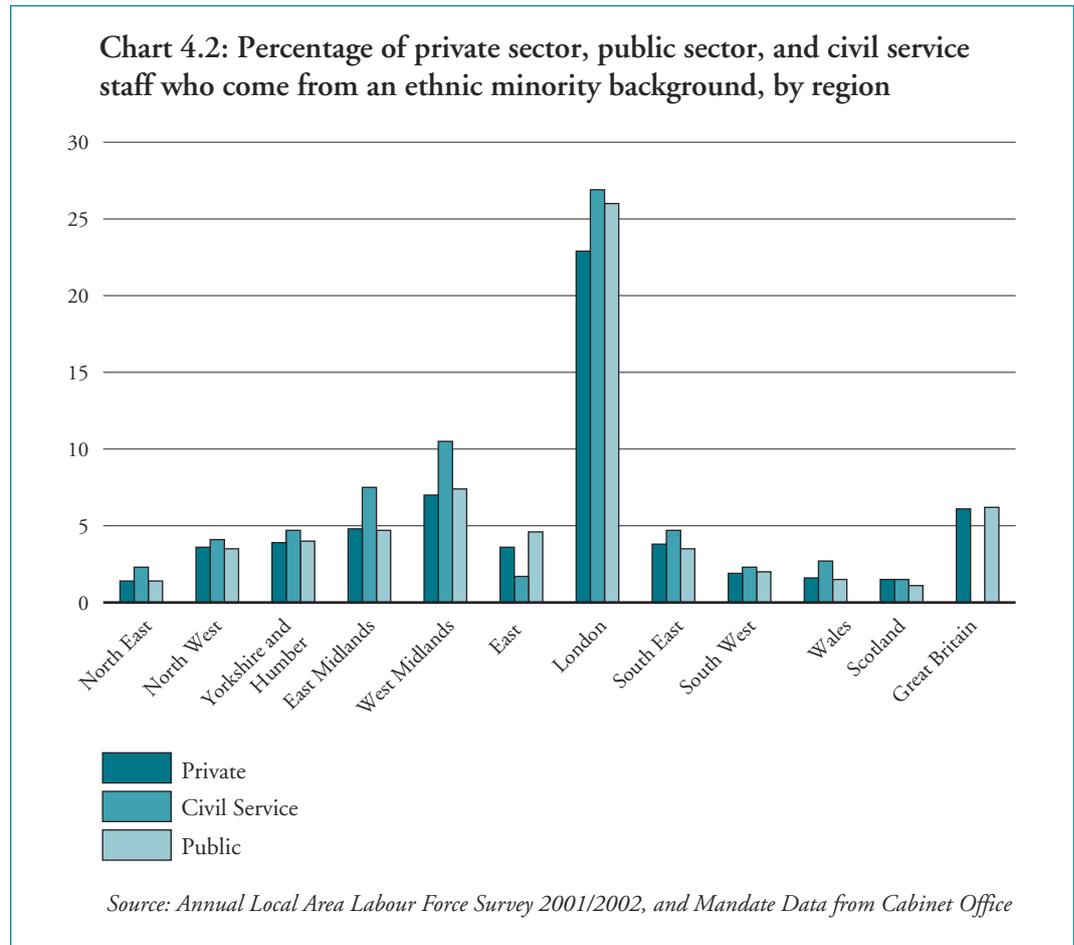
4.37 The civil service unions have expressed concern about the possible impact of relocation on ethnic minority staff. The unions noted a high concentration of ethnic minority civil service staff in London, disproportionately in lower grades. They were concerned that such staff were particularly likely to be affected by relocation, either by being asked to relocate (possibly to areas in which their communities are not strongly represented), or by facing redundancy if they did not move with the post. I have set out some of the key facts below.

4.38 The London civil service reflects the concentration of ethnic minority communities in the capital. Ethnic minority staff make up 27⁶ per cent of the London based civil service (compared with 29 per cent of London's overall population). This compares with a UK average of 7.6 per cent of civil service staff defining themselves as from an ethnic minority (against 7.9 per cent of the UK's population overall). Ethnic minority staff are disproportionately represented in the junior administrative grades in London, accounting for 10 per cent of staff at this level nationally, but 43⁷ per cent in London.

4.39 Chart 4.2 illustrates that while London leads, there are also significant proportions of ethnic minority staff employed in the civil service in the West Midlands, the East Midlands, and the South East, reflecting ethnic minority populations in these regions. This does not reflect the fact that some minorities are overwhelmingly in London.

⁶ NB – the ethnic origin of all staff in the civil service is not known – percentages in this annex exclude those staff for whom an ethnic origin is not known.

⁷ This is the percentage of known ethnic origin for this grade. The ethnic origin of 40 per cent of administrative grades is not known. This information is correct as at April 2003. Source is mandate and departmental returns to the Cabinet Office



4.40 The chart also illustrates the relative performance of different sectors. While 27 per cent of London civil servants are from an ethnic minority background, the wider public sector is close behind with 26 per cent, and the private sector with 23 per cent. The South East presents a similar picture.

4.41 These data suggest that it would be wrong to regard the civil service as an employer of last resort for ethnic minorities in London, or to ignore the considerable concentrations of ethnic minority populations in other parts of the UK. Relocation offers the prospect of new employment opportunities for ethnic minority workers outside London. And there is likely to be alternative employment in London for ethnic minority staff who do not relocate, particularly in the context of the Greater London Authority's forecast of a 600,000 increase in job growth by 2016.

4.42 A cautious conclusion, therefore, is that a programme of public sector dispersals should not be expected to have a net negative impact on ethnic minorities. But clearly this is an issue that departments will have to handle with great care and sensitivity to the personal circumstances of their staff. The high participation of ethnic minorities at junior levels of the London civil service is a particular reason for exercising care. The fact that some minorities are not well represented outside London is a factor that must be considered in deciding which staff should be relocated in post.

5

The current pattern of government service

Summary

The government service is considerably dispersed and has become more so over time. 18 per cent of UK civil servants are in London. Taking account of those employed in arm's length bodies, just 15 per cent of staff are in London.

The level of dispersal varies considerably by department. Defence and the big delivery departments: Work and Pensions, Inland Revenue and Customs and Excise disproportionately account for the dispersal of civil servants.

A significant amount of back office and transactional work is still in London and the South East: for example 52 out of 206 national government call centres. Despite cost disadvantages, civil service numbers are not falling in London. These indicators are relevant to the Government's interest in rationalising back office and transactional functions.

Nearly three-quarters of senior civil servants employed by UK government departments¹ are in London and departments say that, excluding local service delivery, the majority of their London based functions are policy, though this is not tightly defined. These indicators are relevant to Government's interest in slimming down headquarters and achieving a tighter definition of policy work.

Far from all arm's length bodies are physically distant from government. 60 per cent of executive non departmental public bodies considered in this review are headquartered in London, as are 28 per cent of the executive agencies considered, and many of the regulators and inspectorates.

The current pattern of government

5.1 The scope of my review took in nearly 500,000 civil servants in government departments and their agencies, some 100,000 staff (not civil servants) in non departmental public bodies, 11,000 staff in NHS bodies² and about 200,000 military staff. I was also keen not to overlook the small number of remaining public corporations, including the BBC, Post Office and Bank of England, which in total employ nearly 257,000 staff³. I took the view that front line public servants delivering face-to-face local services were outside my terms of reference (but staff in support of these services, who do not necessarily need to be colocated, certainly are in the frame for dispersal).

5.2 I was eager to establish a baseline for the dispersal of government activities. I used a variety of data sources, beginning with official statistics on civil servants.

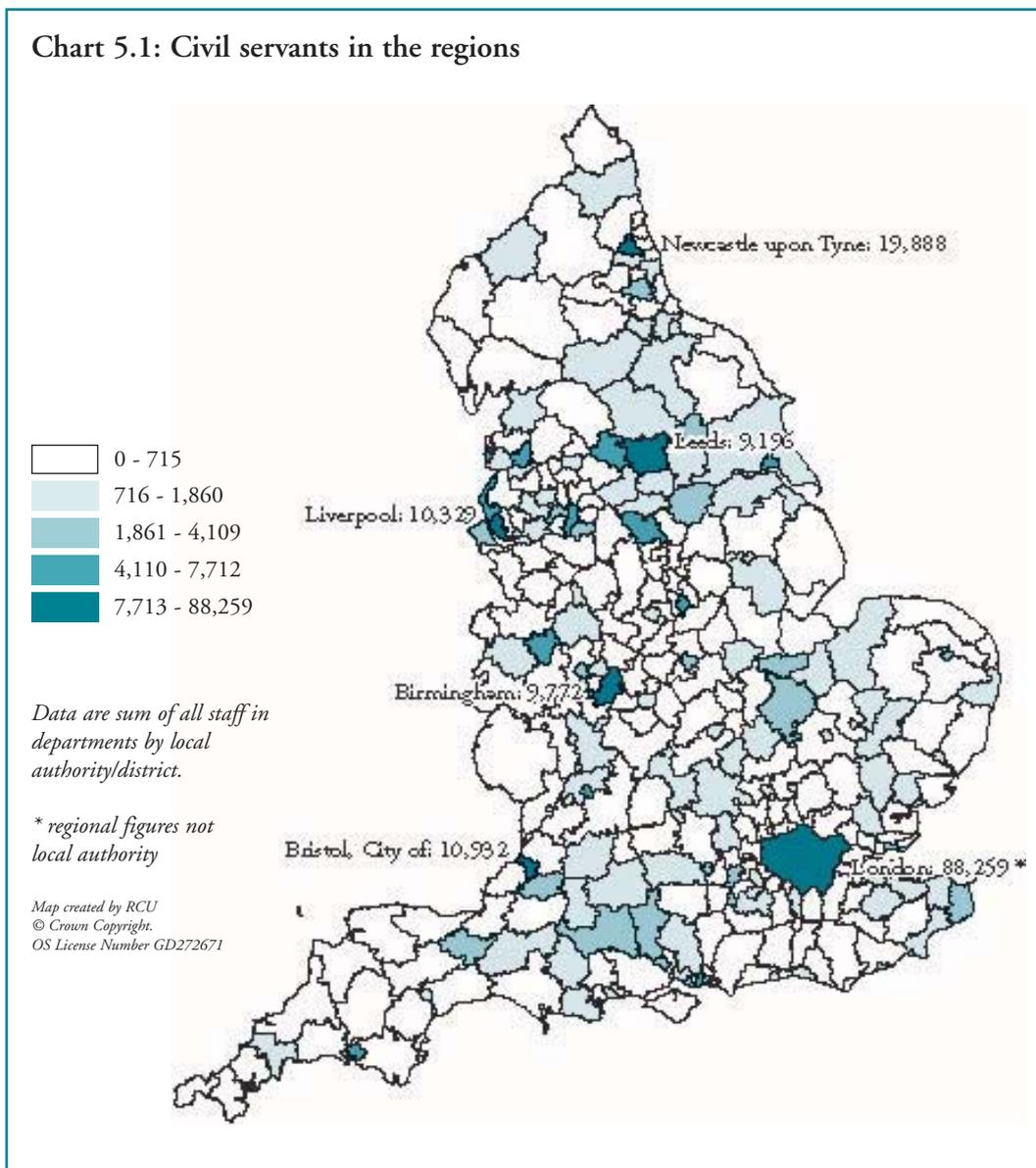
¹ This excludes staff in the Scottish Executive and associated Scottish departments, the National Assembly for Wales, and the Northern Ireland Office.

² But excluding those in Primary Care Trusts, General Practitioners, and Strategic Health Authorities.

³ Although these figures are not included in the tables in my review.

5.3 There are nearly 500,000 civil servants in the UK⁴, 18 per cent of which (87,000) work in London and a further 12 per cent (57,000) in the South East. 72 per cent of civil servants work in executive agencies or operations run on agency lines.

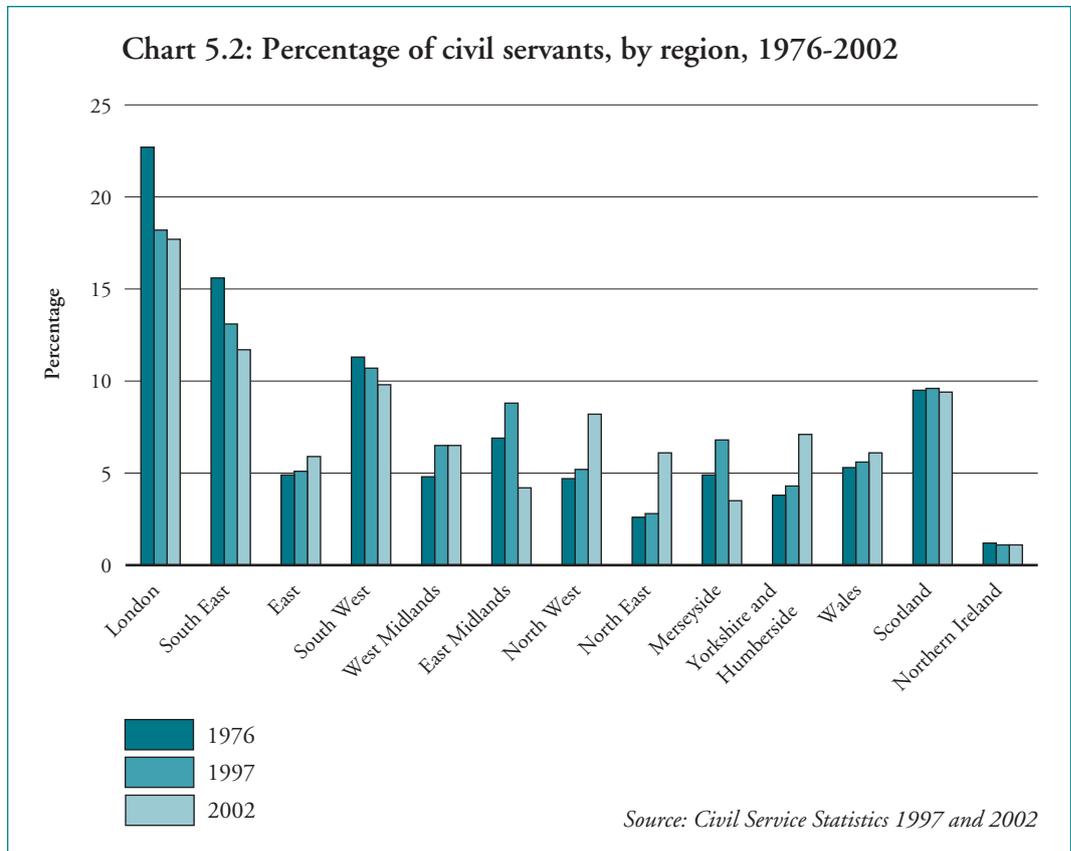
5.4 Chart 5.1, below shows the dispersal of civil servants across the English Regions.⁵



⁴ “Civil Service Statistics 2002” – Cabinet Office. Figure includes industrial and non-industrial staff, permanent full-time equivalents.

⁵ This does not total to the 490,000 civil servants in the UK, as it is in terms of headcount, and excludes UK civil servants working in Scotland, Wales and NI.

5.5 The map highlights major concentrations of civil service activity out of London. To a considerable extent this is accounted for by the local presences of the Inland Revenue (IR), JobCentre Plus and other parts of the Department of Work and Pensions (DWP), Customs and Excise, the Prisons Service and other parts of the Home Office. A large IR and DWP presence makes Newcastle the largest centre of civil service employment outside Westminster.



5.6 Chart 5.2 illustrates how the dispersal of civil servants has changed since 1976. While civil servants remain heavily concentrated in London and the South East, the long term trend is for decentralisation, consistent with the history of government dispersal outlined in chapter 2 and at Annex E. The regions which have benefited most from this trend are the North East, the North West and Yorkshire and Humberside, while in Merseyside, the East Midlands and the South West, the overall trend has been a slight decline in share over the period.

5.7 It is worth noting that, while the proportion of civil servants in London has slightly declined since 1997, the absolute numbers very slightly increased from 86,600 to 86,790 in 2002.

5.8 Table 5.1 shows a much greater concentration in London, when higher civil service grades are considered. Although London is the base for about 18 per cent of all civil servants, some 67 per cent of the Senior Civil Service (SCS) in the UK is based there. Excluding those working for the Scottish and Welsh administrations and the Northern Ireland Office, the proportion rises to 74 per cent. London also has the largest proportion – 47 per cent – of staff just below the SCS at higher management level (Grade 7).

Table 5.1: Percentage distribution of civil service⁶ grades – across different regions.

Civil Service Grade	London	South East	South West	West Midlands	North West	North East	Yorks & Humber	East Midlands	Eastern	Elsewhere	Total
Senior civil service	73.5	3.1	4.5	1.8	3.5	0.9	4.0	1.1	1.6	4.8	100
Higher manager (G6/G7)	47.0	6.7	10.3	4.2	7.5	2.5	6.6	2.7	3.6	7.4	100
Middle/Junior managers (SEO/HEO/EO)	22.6	11.4	11.5	6.4	11.5	5.2	7.9	4.3	6.4	12.2	100
Admin (AO/AA)	13.2	11.2	8.5	7.4	15.1	9.2	7.8	5.2	6.4	15.9	100
Other	1.8	30.0	19.0	8.8	0.5	0.1	1.5	0.7	1.7	26.5	100
Total	18.6	11.6	10.1	6.8	12.7	7.0	7.6	4.5	6.1	14.2	100

Source: Corporate Development Group: Cabinet Office: Correct as at April 2003.

5.9 There are no centrally-collated data on the location of staff in sponsored bodies. I relied on data provided to me by departments to build a picture of the overall level of dispersal of government activity, taking the civil service together with its various arm's length operations. Table 5.2 summarises the data, disaggregated by department. It is a snapshot view and does not provide trend data. It shows the distributions for each department (excluding its executive agencies) and what I have termed the department "group" (including executive agencies and sponsored bodies), which is my own term, and not one used in official sources.

5.10 The big picture is one of considerable dispersal. Of more than 800,000 staff, some 125,000 or 15 per cent are in London and a further 119,000 or 15 per cent in the South East.

5.11 Table 5.2 shows considerable variety in the extent to which departments are dispersed, reflecting widely differing structures and functions and the extent to which delivery is, or is not, through external agents.

- Overall, the level of distribution is quite high. Even excluding agencies and sponsored bodies, the proportion of departmental staff in London is just 28 per cent.
- The civil service centre, including HM Treasury and the Cabinet Office, is very centralised, reflecting its role in leading and co-ordinating government activity, and working with other departments, primarily in London. Smaller departments, including a number of regulators, also tend to be highly concentrated in London.
- The departments with large direct service arms – Work and Pensions, Inland Revenue and Customs and Excise – are highly dispersed. So is the Ministry of Defence Group.
- Most other departments show a considerable degree of dispersal, reflecting the distribution of their own delivery agents (agencies and NDPBs) or the regionalisation of headquarters functions – most notably exemplified by the Department of Health (London and Leeds), and the Department for Education and Skills (London, Sheffield, Darlington and Runcorn).

⁶ Includes civil servants employed by UK government departments, excluding employees of the Northern Ireland Office, and devolved administrations in Scotland and Wales.

Table 5.2: Baseline data, by department, and department group

Department	Total Staff	Staff in London		Staff in South East	
		Number	%	Number	%
Cabinet Office	1,856	1,415	76	294	16
Cabinet Office group	2,141	1,700	79	294	14
Chancellor's Depts.					
Customs & Excise	22,590	5,379	24	4,110	18
Inland Revenue	71,753	6,642	9	6,280	9
Inland Revenue group	76,108	7,398	10	6,892	9
Office for National Statistics	3,451	925	27	703	20
Treasury	1,067	1,067	100	0	0
Treasury group	1,152	1,152	100	0	0
Constitutional Affairs	1,874	1,639	87	0	0
Constitutional Affairs group	15,200	6,225	41	1,425	9
Culture, Media and Sport	478	478	100	0	0
Culture, Media and Sport group	20,681	11,592	56	1,530	7
Defence civilian	89,750	7,280	8	17,960	20
Defence military	203,680	6,370	3	51,230	25
Defence group	293,430	13,650	5	69,190	24
Environment Food and Rural Affairs	7,802	3,090	40	989	13
Environment Food and Rural Affairs group	31,017	4,108	13	6,053	20
Education and Skills	5,366	2,478	46	77	1
Education and Skills group	16,656	4,304	26	628	4
Foreign and Commonwealth Office	14,301	2,996	21	715	5
Foreign and Commonwealth Office group	21,611	3,609	17	783	4
Health	3,634	1,935	53	17	0
Health group	25,684	7,107	28	2,682	10
Home Office	15,640	11,191	72	1,755	11
Home Office group	69,549	20,021	29	9,323	13
International Development	2,934	1,026	35	0	0
Office of the Deputy Prime Minister	2,431	2,209	91	146	6
Office of the Deputy Prime Minister group	8,986	3,832	43	578	6
Trade & Industry	4,351	3,955	91	18	0
Trade & Industry group	27,911	7,946	28	1,016	4
Transport	1,651	1,223	74	226	14
Transport group	17,093	2,989	17	1,691	10
Work and Pensions	18,498	2,616	14	110	1
Work and Pensions group	129,446	14,218	11	8,890	7
Smaller departments	26,975	8,424	31	3,152	12
Smaller departments group	28,632	8,424	29	3,152	11
Totals for departments only	206,652	58,688	28	18,592	9
Total for department groups	814,272	125,605	15	118,940	15

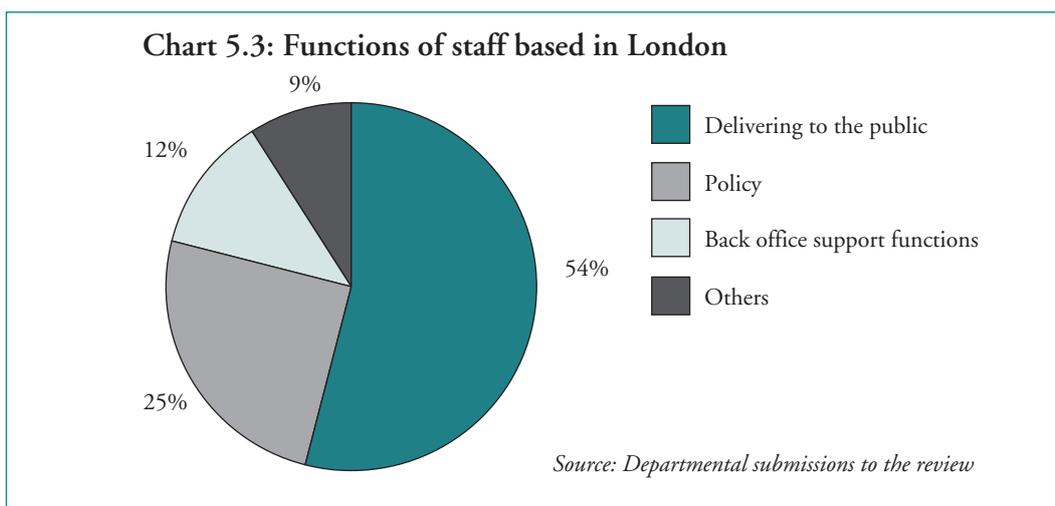
Source: Departmental submissions to the review

Department group refers to the department plus agencies and sponsored bodies, and is a term adopted specifically for this review. Not all departments have sponsored bodies or executive agencies – department group is only included here where they do.

- The absolute size of London-based headquarter functions (which does not emerge clearly from a focus on levels of dispersal) is also a noteworthy feature. The principal departments range from about 1000 to 5000 staff, with most lying in the mid-range of between 2000 and 4000.

Functions carried out in London

5.12 There are no government-wide official statistics showing the allocation of staff to different functions. Chart 5.3 is derived from data that I requested from departments, and gives a broad indication of the functions being undertaken by staff in London. It covers both civil servants and staff in arm's length bodies.



5.13 The chart indicates that, according to departments' classifications:

- More than half of London staff or 60,000 are engaged in public service delivery (but departments' detailed returns suggested that some functions in support of face-to-face delivery were also counted);
- just over one in ten, or around 12,000, London-based staff are employed in back-office and support work, including finance, procurement, IT support, human resources and so forth. This seems likely to be an underestimate, given the way delivery functions were defined, and taking account of the 15,000 categorised as "other", which certainly included some support functions (including personnel, finance, accounts, training and call centre staff);
- about one in four staff, or some 30,000, were doing policy work. This appeared to cover a range of functions from senior policy analysis and development to more operational 'intelligent delivery' functions.

5.14 Similar analysis was applied to staff based in the South East. The vast majority of these were classified as performing local service delivery functions.

5.15 Data from other sources gives a feel for the extent to which operational and transactional functions (other than those serving a local customer base) remain in London. For example, 52 of 206 national government call centres are based in London and the South East⁷. There are also significant operational activities such as the Immigration and Nationality Directorate in Croydon and various executive functions of the Inland Revenue, not all of which are exclusively locally focused.

⁷ Source: "Using call centres to deliver public services". National Audit Office: December 2002:

Data on headquarters

5.16 Some interesting facts emerged from looking at the extent to which headquarter operations other than those of main government departments were concentrated in London. I found that:

- 97 of the 162 executive NDPBs considered by my review⁸, (or 60 per cent) were headquartered in London⁹.
- 21 out of 74 executive agencies, or (28 per cent) were headquartered in London¹⁰.
- Of the eight regulators and inspectorates¹¹ with which my review engaged all but one (OfWat), had its headquarters in London. Of those, three (OfT, the Office of the Rail Regulator, and OfGEM) had all their staff in the capital, and three more had over 70 per cent of staff there (OfCom, HMCPSP, and The Food Standards Agency).

The scope to go further

5.17 The data set out above show that government functions are already widely dispersed, but also suggest considerable potential to go further. Broadly, departments agreed with me to the extent that they were able to identify more than 27,000 jobs that could be taken out of London and the South East, a theme for chapter 6.

5.18 The fact that civil service numbers in London have not declined, despite the cost and other disadvantages set out in chapter 3, suggests that price signals are not working as effectively as they should – an issue to which I return later, in the context of developing suitable incentives for dispersing activities.

5.19 The data on the continued prevalence in London of back office and call centre activity are consistent with the Government's own view, and with findings emerging from the Gershon review of efficiency, that there is considerable scope for rationalisation of back office and transactional functions.

5.20 The Government's progress with such rationalisations is therefore likely to offer considerable opportunities for further dispersal. The *Experian* evidence reviewed in chapter 3 is highly material in this regard, demonstrating that relocations themselves provide an opportunity and spur for wider business process improvements. The examples cited in Annex B also show the potential for information and communication technologies to transform organisations and create new possibilities of working across distance.

⁸ These tend to be the larger NDPBs – there are 192 in total but not all were covered by the review. They are established in statute and carry out administrative, regulatory and commercial functions, they employ their own staff and are allocated their own budgets.

⁹ According to Public Bodies 2003, Cabinet Office.

¹⁰ According to the 39th Civil Service Year Book, Cabinet Office.

¹¹ This does not include regulators or inspectorates which are the sponsored body of another department – only those which were considered self standing organisations, and thus were contacted by the review. These were: Office of Fair Trading, Office of the Rail Regulator, Office of Gas and Electricity Markets, Office of Water Services, Office of Communications, HM Crown Prosecution Service Inspectorate, Office for Standards in Education, and the Food Standards Agency.

5.21 Radical re-engineering of the whole government machine is a longer term aspiration but it should not prevent departments pressing on with quick, practical improvements. For example *PA Consulting* have developed a methodology for the rapid redirection of call centre activity out of London. This includes switching call traffic to suitable government call centres elsewhere in the country, and relying on high rates of staff turnover to minimise the costs of winding down activity in London.

5.22 Meanwhile, no overview of dispersal opportunities would be complete without a scrutiny of Whitehall headquarters. The large size of many of these is consistent with the finding that senior levels of the civil service are very highly concentrated in London. I was struck by the tendency to argue the indivisibility of headquarters ranging from 1000 to 5000 in complement, and by the lack of precision in defining policy and the case for its location in London. These findings are of course very relevant to wider Government concerns about headquarters which I set out in chapter 2, and I consider the issue further in chapter 9.

5.23 I have been particularly struck that many bodies which constitutionally are at varying degrees of arm's-length from central government nevertheless remain in London. Executive agencies were formed from the operational parts of departments after 1988, focussed on delivery and with enhanced managerial and financial freedoms under chief executives. I have no doubt that this clear business focus enabled and incentivised several of these bodies to lead successful relocations, such as the Patent Office and Defence Procurement Agency discussed in earlier chapters. The agencies of the Department of Transport provide another good example, as described in the box below. One is bound to ask why considerable numbers of agency headquarters and staff remain in London.

Executive agencies of the Department of Transport (DfT)

The executive agencies of DfT are an example of executive agencies working at a significant distance from their parent department.

The Driver and Vehicle Licensing Agency, responsible for the registration and licensing of drivers and vehicles, and the enforcement of vehicle excise duty, is based in Swansea.

The Driving Standards Agency, responsible for promoting road safety in the UK through the advancement of driving standards, is based in Nottingham.

The Vehicle Certification Agency, responsible for providing the national testing and certification service for vehicles and parts, is based in Bristol. It works with the Traffic Commissioners to improve road safety and the environment, and to safeguard fair competition by promoting and enforcing compliance with commercial operator licensing requirements.

The Maritime and Coastguard Agency, responsible for the delivery and implementation of the Government's maritime safety strategy, is based in Southampton.

The Highways Agency, responsible for the management and maintenance of motorways and other main roads, is the only one of DfT's executive agencies with a headquarters in London, but it too has undergone a far reaching dispersal programme in the last few years, leaving only around 90 staff in London.

5.24 The same question can be asked of executive NDPBs and of regulators and inspectorates (some of which are classified as departments in their own right). Those with a London headquarters include the Housing Corporation, the Audit Commission and most of the high profile regulators with the significant exception of OfWat in Birmingham. In relation to these bodies, I heard arguments about the need for colocation with London-based stakeholders and the need for close engagement with central government. But these are not in themselves a case for London headquarters, and many of these bodies have functions dispersed across the country. OfWat manages perfectly well in Birmingham, and the Planning Inspectorate in Bristol.

5.25 Executive NDPBs are mostly at greater arm's-length from central government than executive agencies, and regulators are independent. The question therefore arises whether independence and authority might actually be enhanced by greater physical separation from Westminster. Similar thinking underpinned plans announced by the Norwegian Government in 2003 to move eight regulatory agencies from Oslo.

OfWat in Birmingham

The Office of Water Services (OfWat), which regulates the water industry in England and Wales, is based in Birmingham. Of its 240 staff, only 14 are based in London, dealing with customer representation issues in London and the South East.

When it was set up in 1989, the then Regulator saw the benefits of being based in Birmingham, with good communications with key stakeholders, eg government, companies, and customers. Ofwat feels that it continues to benefit from its location. It has developed its independent role successfully, whilst still maintaining effective relationships with government, the City and other London-based stakeholders. It recruits people with a broad range of employment backgrounds across the private and public sectors. Whilst there are some downsides to being away from London, Ofwat feels that the benefits outweigh them.

5.26 Some departments pointed out to me the limits of their leverage over arm's length bodies which, by definition, have a degree of autonomy. I think this misses a bigger point. Departments clearly have to respect the arrangements that govern their relationships with other bodies. But the Government has a right to expect that bodies funded by the taxpayer should contribute to its wider efficiency objectives.

5.27 In relation to regulators and inspectorates, I am attracted to a model which seeks to build clusters of related activities in other cities, bearing in mind existing examples of regionally based bodies like OfWat and the Adult Learning Inspectorate, and the Government's ambition of a more joined up approach to regulation and inspection.

6

Departments' proposals

Summary

Departments identified more than 27,000 posts which could be taken out of London and the South East, of which up to 20,000 are candidates for relocation. Taking account of likely wider efficiency changes, the net number of new jobs created elsewhere in the UK is likely to be smaller.

This is a promising start but energy must now be put into implementation. Nor does it exhaust the full scale of the opportunity for dispersing functions out of London and the South East. It is best viewed as a first tranche.

Departments' proposals:

- Mostly involve the movement of relatively junior, operational posts;
- Show a preference for departments' existing regional sites;
- Leave substantial scope for reducing the size of departmental London headquarters, and for reconsidering the London headquarters location of many executive agencies, arm's length bodies, regulators and inspectorates;
- Leave further scope for relocating back office and government call centre activity out of London; and
- Leave wide scope for dispersal opportunities arising from joining up functions across organisational boundaries.

The immediate challenge for Government is to ensure that this tranche of dispersals takes place. This chapter begins to consider some of the implications for implementation.

Introduction

6.1 Departments' proposals were the core of my review. I asked 39 government departments to submit proposals for relocation of posts from London and the South East, including posts within their agencies and the arm's length bodies they sponsor, and excluding staff involved in face-to-face delivery of local public services. The task, set out in written guidance to departments, embodied a high degree of challenge. In essence, I invited departmental heads to ask themselves:

"Given my delivery priorities, the pressures I am under, and the high costs of London, can I really justify having this many people in and around London?"

6.2 I made it clear that I expected departments' proposals to be driven by business need and informed by rigorous analysis of the costs and benefits, covering wage and accommodation cost differentials, estate management, service quality issues, risk and other business case factors as discussed in chapter 3. I also wanted departments to challenge assumptions about the need for so many people involved in the policy process to be on hand for ministers and London-based stakeholders.

6.3 I expected departments to integrate their locational planning with their programmes for reform, while recognising Government's wider objectives in relation to modernisation, efficiency, devolution and the regions. Thus I encouraged departments to consider locational opportunities that might arise from new uses of information and communication technologies (ICT); sharing services and processes with other government bodies; and other changes to organisation, culture and practice. I also asked them to consider the opportunities for using existing regional infrastructure, for example the Government Offices for the Regions, and to address whether dispersal might contribute to more resilient disaster recovery arrangements in the world after September 11 2001.

6.4 I asked departments to say how their proposals would be taken forward, taking account of any constraints and dependencies. My discussions with departmental heads were helpful in exploring these issues, which I expose later. I also encouraged departments to share their past experiences of relocation. I am grateful to those that were able to provide material, some of which has been reflected in the work produced by *Experian*¹ and in the case studies in this report, and which has helped to inform my conclusions.

6.5 Initial proposals were submitted by departments in September 2003. These were assessed against a framework reflecting the criteria set out above, and consulting relevant specialists across government, for example in the Office of the E-Envoy (information and communication technologies), or the Office of Government Commerce (property issues). Further exchanges with departments continued until March 2004.

The overall picture

6.6 Departments have identified about 27,000 posts which could go from London and the South East. Of these about 19,700² are candidates for relocation, whilst 7,500 are expected to disappear as part of wider efficiency improvements of which my review was notified. A summary of the numbers broken down by department is at table 6.1. Department by department summaries of the proposals and my assessment of them are at Annex A. Taking account of wider efficiency changes, the net increase in jobs in the rest of the country is likely to be lower than 19,700.

6.7 The proposals are at different stages of development. Some are already close to implementation, such as the planned move of 85 Department for International Development posts to East Kilbride, and of more than over 1,800 posts Department for Work and Pensions posts. Others require a good deal more work to develop detailed business cases, or are seen as dependent on the outcome of other reviews or reorganisations.

¹ "The Impact of Relocation – learning from previous relocations", Experian Business Strategies January 2004: available on the Treasury website at www.hm-treasury.gov.uk/lyonsreview

² This includes some new posts which would otherwise have been based in London and the South East. It also includes some posts which will relocate from London to within the South East, such as 456 posts for the FCO which are moving from central London to Milton Keynes, and 18 posts for the National Archives which are moving from central London to Kew.

6.8 Given that departments' plans were at very different stages of development, not all were able to give full details on the candidates they put forward, but some clear patterns emerge:

- 70 per cent of the posts identified would go from London, the rest from the South East³; Only around 30 per cent of departments were able to specify when they expected moves to take place, but of these, all would be likely to be complete by 2010;
- Fewer than 3 per cent could be classified as policy posts, 15 per cent were technical or specialist posts, 20 per cent were military, and the vast majority of the rest were back office support functions like human resources or IT, or are in junior grade delivery functions, such as form processing⁴;
- Just over half the posts proposed come from executive agencies, NDPBs, or other arm's-length bodies, rather than core departments, with less than 20 per cent of posts coming from London based departmental headquarter functions⁵;
- 21 smaller departments, including key regulators and inspectorates and accounting for 11,576 staff in London and the South East, in aggregate offered only 30 candidate posts for relocation;
- Few departments proposed relocating call centre activity (Inland Revenue and Customs & Excise were exceptions);
- Little wholesale relocation was envisaged: over 85 per cent of posts were from organisations which would still have some presence in London or the South East;
- Departments which specified alternative locations (not all did) displayed a strong preference for using their own regional sites or for clustering in areas where they already had a presence (see chart 6.1 below and the departmental summaries for detail). Locations mentioned by two or more departments included Newcastle, Glasgow, York, Leeds, Liverpool, Manchester, Sheffield, Birmingham, Bristol and Cardiff; and
- 16 departments speculated about further candidates for dispersal over a longer timespan, which are not included in the numbers here.

³ Information given for 80 per cent of posts identified.

⁴ Information given for 65 per cent of posts identified.

⁵ Information given for 75 per cent of posts identified.

Chart 6.1: Alternative locations identified



Proposals in detail

6.9 Table 6.1 summarises the 27,150 posts departments have identified.

Table 6.1: Proposals to the review, including related staffing reductions

Department group	Dispersal candidates	Efficiency candidates	Baseline complement of departmental group in London and South East
Cabinet Office	250	0	1,944
Chancellor's Depts.			
Customs & Excise	500	0	9,489
Inland Revenue	1,450	0	14,290
Office of National Statistics	1,125	0	1,628
Treasury	18	0	1,152
Constitutional Affairs	1,625	0	7,650
Culture Media and Sport	604	0	13,122
Defence	3,887	351	82,840
Environment, Food and Rural Affairs	350	773	10,161
Education and Skills	790	0	4,932
Foreign and Commonwealth Office	456	0	4,392
Health	1,110	700	9,789
Home Office	2,300	200	29,344
International Development	85	0	1,026
Office of the Deputy Prime Minister	237	0	4,410
Trade and Industry	600	450	8,962
Transport	72	0	4,680
Work and Pensions	4,187	5,000	23,108
Smaller Depts.	30	0	11,576
Totals	19,676	7,474	244,495

Source: Departmental submissions to the Review

Smaller departments have been grouped together, details are at annex A.

Some figures include staff moving out of central London but within the South East and new posts which would otherwise have been in London and the South East.

Health figures do not include 700 staff moving from the department to the front line.

Home office efficiency gains will be at least 200.

Shows proposals for the department and any executive agencies and NDPB's.

6.10 I assessed these proposals against criteria addressing rigour of analysis, integration with broader strategy, and clarity about the way forward, taking account of departments' current state of dispersal. How good a response was this? It was clear from the patterns described above that departments had offered proposals of substance but ones which, in aggregate, would lead to incremental rather than radical change, and which were not likely to capture the full extent of dispersal opportunities discussed in chapter 5.

Rigour of approach

6.11 There was a degree of rigour in the extent to which departments tackled their business planning but far from universal coverage of relevant factors. Much less rigour was apparent in the extent to which departments had challenged themselves to justify the current level of activity in and around London and to envisage a fundamentally different configuration. I found this disappointing and was surprised by how often departments asserted rather than demonstrated the need for a London location on the grounds of ministerial needs, colocation with key stakeholders, and the status and indivisibility of policy work.

- 13 departments specified likely up front costs with costs per post relocated ranging from £6,000 to £206,000;
- Over three quarters of the proposals addressed accommodation cost savings in the longer term, and most of them identified the risks and costs associated with early exits from existing leases;
- About half of the proposals demonstrated analysis of the possible labour cost savings, but many did not identify the costs and risks associated with relocation packages and redundancy;
- About half of the proposals considered the possible benefits of improved recruitment and retention away from London;
- About half of the proposals addressed possible improvements in service delivery to customers;
- Only two departments, Customs & Excise and Office for National Statistics, tried to quantify the benefits which would be derived from greater alignment of pay with local market conditions out of London;
- Few departments proposed moving significant policy functions; and
- There was very little mention of the Government Offices for the Regions as a platform for further dispersal, with the Office of the Deputy Prime Minister and the Department for Trade and Industry notable exceptions.

Integration with departments' broader strategies

6.12 Departments on the whole were less than successful in showing how their location thinking fitted with broader strategy. There were some notable exceptions. For example, the Department of Trade and Industry was able to demonstrate how its relocation proposals sat alongside a slimming down of headquarters functions. The Department for International Development were clear that the further move of policy posts to Scotland contributed to a strategy of strengthening its East Kilbride operation, including by enhancing career opportunities.

6.13 In other cases, the proposals seemed both modest and self-contained, rather than integrated with a bigger overhaul. This was reinforced by the insight that in some departments the response to my review was being handled by altogether different people from those engaged with the efficiency review and other initiatives.

6.14 In my conversations with department heads I had a stronger impression of strategic joining up at the top (indeed that is what I would expect at this level!), but was left uncertain how far that strategic overview cascaded down the organisation.

- In their written submissions, fewer than half of departments demonstrated how relocation proposals fitted into the wider context of departments' modernisation and reform strategies, and the treatment was often cursory;
- Few proposals demonstrated that radical embracing of information and communication technologies had informed departmental thinking on dispersal and its relationship to reengineering (in contrast to some of the private sector examples notified to the consultation and mentioned in Annex B);
- Few proposals addressed the possibility of joining up activities across departmental boundaries and relocating them, and there were no joint proposals from groups of departments. Some departments said they were considering it – for example the Department for International Development and Office of the Deputy Prime Minister. The Food Standard Agency had tried to interest other smaller departments;
- No department proposed dispersals that were explicitly linked to political devolution (eg in anticipation of, or in consequence of, devolution of decision making powers to other authorities), though one third of proposals mentioned the potential read-across, and the DTI proposed moving functions to the Regional Development Agencies;
- Only the Foreign and Commonwealth Office displayed any detailed consideration of disaster recovery planning as an aspect to dispersal; and
- The impact of dispersal on improved business culture, and the efficiency gains that can flow from these (as discussed in chapter 3), did not appear to have been considered by any departments.

Clarity of the way forward

6.15 I was aware that some departments had already gone a long way towards dispersing activities and that the remaining opportunities were not evenly spread across government. I gained a strong sense, most particularly in my discussions with department heads, that the benefits of dispersal were well understood and that there was a will to move forward. The level of drive varied between departments and I saw a clear need for initial proposals to be turned into firm plans, with clarity about processes and timetables.

6.16 Departments raised a number of concerns, including:

- The up-front costs of dispersal – including early exits from London leases, relocation packages, and where necessary, redundancies – and the availability of funding;
- The potential for relocation to divert resources and senior management time from key departmental targets and priorities;
- The vital importance of business continuity where relocation impacts on service delivery;
- Concern about the interaction between locational issues and the wider efficiency agenda; and
- Concern about aggregate effects over which individual departments felt they had little control: for example, the potentially distortionary effect on office property markets of the combined planned relocations, or the difficulties of redeploying staff in other parts of the civil service. On some of these issues department heads indicated that they would welcome tighter coordination from the centre.

6.17 These concerns are consistent with the research findings reported in chapter 3 that relocation carries risks, and requires leadership, careful planning, project management and good communication from the top to make it succeed. The important issue will be how department heads react in the face of these factors.

6.18 Up front costs are clearly an important issue that needs to be addressed in the forthcoming spending review. My view on the link with efficiency is that it ought not to become an excuse for inaction. I found it revealing that some departments felt unable to progress their thinking on location until other fundamentals were decided, rather than trying to tackle both in parallel, or by using dispersal as a contribution to wider reforms. The important point about aggregate effects is discussed below.

Conclusions

6.19 Departments have made a promising start in identifying some 19,700 candidates for relocation. My analysis of their proposals clearly reveals that they have not unearthed the full extent of the opportunities for dispersal. The unquantified, speculative possibilities identified by 16 departments are a sign that they too recognised there was scope to go further. I was not satisfied that departments have yet been sufficiently rigorous in challenging conventional thinking about what must be done in London. The 19,700 candidates are therefore best viewed as a first tranche. What are the implications for Government in taking matters forward? I have drawn three main conclusions from departments' proposals.

6.20 First of all, there is a matter of focus and priority. The nature of the aggregate departmental response to my review reflects the relative lack of prominence that location has enjoyed as a dimension of government business planning. As is clear from the discussion in chapters 1 and 2, that situation is now changing and departments will need to adapt to developing Government thinking on public sector reform. In particular they will need to think harder about the fit between their relocation proposals and wider reforms, including those prompted by the efficiency review. One implication is that the figure of 19,700 may come down somewhat.

6.21 The 2004 spending review will be a particularly important forum for bringing together the locational and wider efficiency considerations, and associated departmental commitments, which will inform the setting of government budgets for the period 2005 to 2008. The challenge for ministers and department heads will be to set a clear lead, affirming that location is an integral aspect of planning, running and reforming government business. Chapter 10 picks up these themes.

6.22 Secondly, there is a question of collective action. Dispersal opportunities will arise from joined up government, but departments gave me proposals only within their own silos. Overall value for money will be best delivered by a more collaborative approach to dispersal in some key respects. A pressing example is the need to properly coordinate exits from London, so as to minimise unnecessary exit penalties and to avoid depressing London office property values. A more collaborative approach will also need to inform choices of alternative locations and the management of employment issues, and I return to these in chapter 10. Collaboration may also be the best way to make progress with the dispersal of functions in smaller departments, where problems of scale (eg up front costs large in relation to departmental budgets) are likely to have been a major inhibitor of significant proposals for dispersal.

6.23 Thirdly, there are important matters of culture and conceptual approach which merit challenge in their own right. Many of these lie at the heart of the insufficiently scrutinised assumptions about what must be done in London and are discussed in chapter 9.

7

The human dimension

Summary

There is an important human dimension to government locational decisions. Modern family structures and working patterns have made the context for relocation increasingly complex. So has the diversification of the modern civil service, with staff terms and conditions varying across government.

Relocation offers staff who move out of London an opportunity to improve their quality of life. It also affords new job opportunities for individuals who are not able or prepared to move to London to work.

The evidence supports an approach to dispersal which emphasises relocating senior and specialist staff, and relying as much as possible on local recruitment. Careful handling of the human impacts is necessary, including changing the perception that career progress is possible only in London.

This approach also requires the civil service to adopt a more common stance on staffing matters, with the Government:

- Promoting good practice in the cost-effective use of relocation financial packages, taking account of private sector experience;
- Improving the arrangements for the cross-service redeployment of staff to avoid redundancy, and to improve staffing in key public services, especially in London.

Introduction

7.1 There is a prominent human dimension to questions of location and relocation, some aspects of which were explicitly drawn to my attention by the Council of Civil Service Unions. The impact of dispersal is felt not only by those who are in the frame for physical relocation (and their families) but also by those who do not move in post, and by individuals who can avail themselves of new job opportunities in locations receiving dispersed functions.

7.2 Government departments considering new locations operate in a very different environment to that which prevailed when Sir Henry Hardman undertook his review. The last thirty years have seen major changes in working patterns, with a growth in the numbers of women and ethnic minorities in the labour market, dual-income households, people working part-time or in other non-standard patterns, and workers with caring responsibilities. These changes have been reflected in the civil service and wider public sector. Research for the Joseph Rowntree Foundation¹ emphasises that trends in family structures and ways of working have created a more complex context for employers planning relocations and that employees are increasingly likely to set limits on when and where they relocate in the interests of work/life balance.

¹ 'The Effects on Families of Job Relocations'. Joseph Rowntree Foundation May 2003.

7.3 The civil service itself is less monolithic than in the early 1970s. The centre has delegated successively greater managerial and financial freedoms to individual departments, and a parallel process has been at work within departments such that 72 per cent of civil servants now work in executive agencies or operations run on agency lines. Terms and conditions for staff below the senior civil service are now matters for individual departments and there is considerable variation. It is a conscious aim of the Government to encourage greater permeability between the civil service and wider public and private sectors, particularly at more senior levels.

7.4 There is also more awareness of the potentially discriminatory impact of mobility clauses on women, following legal actions in the 1990s. Some departments appear to have become very cautious about mobility, but most have retained mobility clauses in their terms and conditions. More recent advice suggests that departments can enforce mobility clauses if they have a good business case for doing so and also act reasonably.

7.5 In short, the human dimension of dispersal is complex, probably more so than thirty years ago. Departments have a lot to consider, and need to proceed with care.

Some reasons for leaving London (and for staying put elsewhere)

7.6 The features of London that make it an expensive and challenging environment for employers also impose costs on individuals, meaning that a move to other parts of the country can lead to considerable improvements in quality of life. Indeed, such improvements are a consistent feature reported by those who have moved to work outside London. (That has to be balanced against the personal costs of moving, and the findings of the Joseph Rowntree Foundation considered above).

7.7 London and the South East are the most expensive areas to live, according to recent work by the Office of National Statistics on regional consumer price levels, and the disparity with the rest of the UK has widened since 2000. House prices in particular are much higher than in the rest of the country, as I set out in chapter 3.

7.8 Employees in London also take much longer travelling to work. According to the 2002 ONS Labour Force Survey the average travel to work time of staff based in Westminster is 53 minutes, second only to the time for City of London workers (59 minutes). The average commute for other major urban areas is far shorter: for example Edinburgh (30 minutes), Manchester (24 minutes) and Birmingham (32 minutes). According to data submitted to my review only 23 per cent of central London workers live within 30 minutes of work compared a UK average of 67 per cent.

7.9 Meanwhile, it is easy to overlook the benefits to individuals living outside London and the South East for whom the dispersal of government work provides new job opportunities. Not everyone is prepared or able to come to London (the Joseph Rowntree research is relevant here too), so greater dispersal can bring not only new opportunity for individuals, but also the chance for the civil service to avail itself of talent that might otherwise be lost to it, and to reflect rather better in its own composition the diversity of the UK workforce. Employing graduate level staff outside London, will also help counter the assumption that bright graduates with an ambition to work in the civil service must come to London.

Who should move?

7.10 Relocating activities is not the same as relocating people, and in an age when moving functions is likely, as I have discussed in chapter 2, to be part of wider reorganisations of these functions, there is no necessary linkage between the relocated post and the person who occupies it.

7.11 The decision who to move must be decided in the light of the organisation's business requirements, taking account of such factors as the need to retain certain skills in the interests of business continuity; the costs of relocation packages; savings arising from relying on local recruitment; the prospect of redeploying staff who do not move; and the costs of redundancy.

7.12 I believe that the broad model government ought to apply is one in which no more staff are relocated in post than are strictly necessary to ensure business continuity, and the retention of the skills needed to make a success of the relocated operation. That is likely to mean that many of the relocated staff will be relatively senior or specialist. This approach strikes me as consistent with a number of findings from the evidence that I have reviewed in this report:

- Relocating fewer people in post keeps costs down and allows employers to take full advantage of regional pay differentials (and even more so if they develop more flexible pay policies);
- Staff cannot be assumed to be willing to relocate, given modern family circumstances, and there are risks in seeking to move people from ethnic minorities to locations where their communities are not well represented (as discussed in chapter 4);
- A critical mass of more senior people is needed in regional offices to ensure their viability and connectedness to the rest of the organisation (as noted in chapter 3);
- Senior incomers are likely to increase the multiplier effect on receiving locations, while being less likely to cause local labour market overheating, as well as bringing wider benefits for the public service and community (chapter 4);
- A focus on moving posts rather than people is likely to be more helpful in a tight London labour market, allowing the redeployment of staff in front-line public services.

Managing the impact on individuals

7.13 In a submission to my consultation the Joseph Rowntree Foundation set out seven “good practice in relocation” points which they hoped would guide my review. They are set out in the box below and I pick up some of the key themes in this chapter.

Good practice in relocation: Joseph Rowntree Foundation

1. Sensitivity to the employment needs of partners
2. financial and wider relocation assistance
3. relocation mentoring and counselling services
4. the provision of information on the destination area
5. recognition of the practicalities relating to obtaining school places
6. recognition of different mindsets of individuals relating to relocation moves
7. consideration of commuting rather than relocation options.

Relocation packages

7.14 Financial assistance is clearly a key component of the departmental “sell” to potentially relocating staff. An approach to locations that is selective about who moves ought, in principle, to allow some flexibility in the deployment of assistance.

7.15 I was struck by an example highlighted by *Experian* of a private company that was able to make a business case for relatively high relocation packages, on the grounds that these enabled the relocation to take place faster, reducing costs overall. Such an approach might be particularly fruitful in helping senior people to move who may, as we will see shortly, be particularly resistant. In the civil service, relocation packages are a matter for individual departments and practice appears to vary. There is clearly a need for a more common understanding across the service of what might constitute best practice, taking account of private sector experience.

Selling the location

7.16 The likely destination can be a fraught issue for employees and employer alike as the extract below from “Yes, Prime Minister” illustrates. There continues to be a lively geographical snobbery in this country, and locations which are popular are not necessarily those that supply the greatest business advantage to the department. There are good lessons to be learned from the practices of, for example, the Inland Revenue (in relation to the Nottingham move) and the Met Office (Exeter) in helping staff learn about, visit, and subsequently become well settled in the new location.

Locational choice for the Rt Hon Jim Hacker MP²

“He made it clear, very properly, that we really cannot ask senior officers to live permanently in the north. I asked for a list of reasons. He obliged:

1. Their wives wouldn't stand for it
2. No schools
3. Harrods is not in the north
4. Nor is Wimbledon
5. Ditto Ascot
6. And the Henley Regatta
7. Not to mention the Army and Navy Club

In short he argued that civilisation generally would be completely remote. This sort of sacrifice is acceptable to the forces in time of war but if the move were made in these circumstances, morale would undoubtedly plummet.”

Senior careers

7.17 A location strategy which puts emphasis on relocating senior (or aspiring senior) staff needs to address concerns that are particularly pressing for this group, some of which were highlighted by *Experian* as a result of their research. These include:

- Perceptions that career opportunities will be more limited out of London;
- Concern that they will be required to travel to London frequently;
- Concern that it will be impossible to re-enter the London housing market at a later date.

7.18 *Experian* highlighted the danger of career isolation and the growth of “them and us” cultures separating the London and regional offices. For senior staff, there may be a particular fear that being out of London will mean being “out of the loop”. The high concentration of senior civil servants in London helps to perpetuate the notion that senior careers can only be advanced in London (and of course this in turn helps reinforce the London-centric nature of the senior civil service).

7.19 This is a challenge for employers. One way to respond is to look for alternatives to outright relocation. *Experian* draw attention to the expectation in some private companies that potential high-flyers will have a number of regional postings as part of their preparation for promotion. The civil service might learn something from this approach, which would be consistent with the increasing emphasis in government on the desirability of policy staff having some direct experience of service delivery.

² From “Yes Prime Minister: the diaries of the Rt. Hon. Jim Hacker MP”.

7.20 Choice of location is also relevant. Relocating to a large city with an existing cluster of government activity is less likely to be viewed as a career limiting move. A government approach to location choice which builds in a degree of clustering (as discussed in chapter 8) will therefore help. In the longer term, two other factors should help mitigate this problem. Firstly, the more senior posts that are created in the regions, the less risky a move out of London will appear. Further decentralisation – and devolution – will change the conditions in which subsequent dispersals are considered. Secondly, it will be necessary for civil servants to develop a broader view of where their careers lie, appreciating that people increasingly move between different parts of the public sector and between public and private sectors. Greater permeability is a clear theme of the Government's thinking on the future development of the senior civil service.

Travel

7.21 Concerns about frequent travel to London reflect real problems that have arisen with split headquarters, although they may also be conditioned by the received wisdom on past relocations. This is a management challenge for employers to ensure that they are rigorous in defining the circumstances in which face-to-face meetings in London are really necessary, and that they are making best use of technology to allow effective working at a distance. These issues are explored in chapter 9.

7.22 Reluctance to lose one's footing on the London property ladder is an understandable concern. It may be difficult and expensive for employers to satisfy in full. An alternative is to move the employee's desk, but not their home. Such an approach was notably adopted in the early 1990s by a company as part of a rationalisation which substantially reduced their London office estate and moved several thousand jobs to locations outside London. Careful analysis of postcode data allowed the company to move these jobs without requiring staff to move house. There was a clear cost driver for the company (no need for relocation allowances) but there was also considerably less disruption for staff.

7.23 This approach will of course be best suited for relocations that maintain activity in the South East and which therefore might not best serve the Government's interests in achieving a better regional spread. The broad point, though, is that it can pay employers to take careful note of where their staff live, bearing in mind that many people commute large distances to work in London. A related point (which has been raised by the consultants CORPRA) is to take note of where London-based employees in practice spend their working days. For some workers a not uncommon pattern might involve a day or two in London and the rest of the week travelling round the country. A relocation might therefore have less of an adverse impact than employers suppose.

7.24 In the end, it may be difficult to persuade senior and specialist staff to move. Relocations like those of the Patent Office and Met Office are seen as successes now but were hotly resisted at the time. A lot of work had to go into persuading specialists and scientists in these two bodies to move. Voluntary approaches are always best but in the end employers must do what is best for the business, which is why it is important that government departments retain mobility clauses.

What about those who don't move?

7.25 The corollary of an approach which relocates relatively few staff in post is that there are many people left behind who do not move in post. Where there is a relatively high staff turnover (for example in call centres), natural attrition will to a large extent take care of this problem. That apart, the choices left for the employer are redeployment or redundancy.

7.26 Redundancy is a big cost, both financially and in its impact on individuals, which is why government should seek to minimise it wherever possible. Redundancy was not a major feature of the Hardman wave of dispersals because a relatively unified civil service was able to redeploy staff both within and across departmental boundaries. Today it is more likely that as departments seek efficiency savings alongside opportunities to disperse activity, jobs will be lost as well as relocated.

7.27 Today's more fragmented civil service is likely to find redeployment across boundaries awkward, a theme to which I return in chapter 10. A diversity of terms and conditions of employment obviously complicates matters. I have noted that in France the development of an inter-departmental pool of labour is seen as a success factor for decentralisation. There is a particular problem of incompatibility between civil service terms and conditions and those in non departmental public bodies, which has added complexity, for example, to the handling of staff of Scottish Natural Heritage (an NDPB) who stay behind when the body undergoes a planned relocation.

7.28 There is clearly sense in the Government's seeking to clarify these boundary issues if it is to achieve a more holistic approach to redeployment across the wider public sector in the interests of efficiency and improved service delivery. It might be of particular benefit in London, if staff can be redeployed in key public services which suffer recruitment and retention problems.

Impact on ethnic minorities and deprived communities

7.29 Chapter 4 set out the issues here and my broad conclusion that a programme of dispersal of government work out of London ought not to have a net adverse effect on ethnic minority staff and those living in deprived areas. But in relation to these groups it is clearly important that departments act with care, recognising for example, that 43 per cent of London civil service staff in junior grades are from ethnic minorities and that some minorities are not well represented outside London.

Conclusion

7.30 In chapter 10 I outline the principles that the Cabinet has already agreed should govern its developing agenda on locational issues. These include the principle that:

“Departments will benefit from a broadly common approach to the staffing dimension of relocation, including the early engagement of trade unions, following best practice in the design of relocation packages, pursuing a voluntary approach to movements of staff where possible and seeking to reabsorb elsewhere in the public sector staff who do not move with their relocated posts.”

7.31 That is the right basis on which the Government should seek to deal with the complex human dimension of dispersal.

8

Shaping the pattern of government service

Summary

The overall geographical pattern of government locations has an important bearing on key Government objectives. The Government should take responsibility for this pattern and is entitled to express preferences based on its judgement of priorities.

The Government needs a strategic framework which sets out how the pattern of government should be shaped by efficiency, service delivery and regional economic considerations. There must be a regional input into this framework. The Office of the Deputy Prime Minister should continue the work that it has started on this framework.

Departments should short-list locations with reference to their own business needs, but this work needs to be informed by the Government's strategic framework.

Locational decisions need to be informed by the following considerations:

- There needs to be systematic sifting of possible locations, based on objective criteria. The analysis commissioned by *King Sturge* demonstrated the scope for ranking locations based on weighted criteria. The Government should consider which aspects of this approach should be retained and developed. Departments need to be alive to the biases that can creep into location decisions.
- Government will derive the best overall business benefits of a revised pattern of locations by being able to coordinate choices across departments, and in particular to make judgements about the right degree of clustering in particular areas.
- The apparent benefits of an “active/active” model of disaster recovery planning have implications for the desired pattern of government locations.

Introduction

8.1 In this chapter I examine the business factors that are relevant to the choice of location and I outline the work that I commissioned from property consultants *King Sturge*. I then go on to demonstrate that location choice in government needs to be coordinated both to avoid negative effects and to ensure that the overall pattern can best contribute to the Government's wider objectives.

Alternative locations: the business case

8.2 The recent history of relocations in government demonstrates that location choice has been influenced by cost and service quality considerations and, to an extent, the aim of getting closer to customers and citizens. These are aspects of locational business planning which I am keen to affirm and reinforce in this report. But rational location sifting is difficult and prone to biases.

8.3 In their proposals to my review, departments relied considerably on their existing regional sites and buildings as a platform for further dispersal. This may allow a more cost-effective use of existing estate, particularly if it affords the opportunity to consolidate activities previously scattered. And departments will enjoy the business benefits of operating in locations already well

known to them. But a location strategy based on existing estate is likely to limit the range of possibilities for departments. The current distribution is an historical legacy that cannot be assumed to provide the most rational basis for further dispersal.

8.4 Another factor that can bias locational decision making is the need for departments to make a convincing case to staff for a favoured alternative location. Chapter 7 illustrated the role that prejudiced and out-dated views about location can play. In particular, departments may find themselves weighing low-cost but relatively unpopular destinations against more appealing but also more expensive ones.

8.5 A further danger is that of political bias, evidence of which was submitted to my review by Professor Colin Talbot of the University of Nottingham. An analysis of the geographical distribution of civil servants in the 1980s and 1990s found a positive correlation (of +0.65) between the number of key marginal constituencies held by the governing party and the changing proportion of civil service numbers located in the region. This was reinforced by anecdotal evidence gathered by the researchers about ministerial involvement in location decisions.

8.6 It was to throw some objective light on the relative business benefits of locations across the UK that I commissioned the consultants *King Sturge* to undertake an initial, high-level comparison. Their work, which is summarised below, highlights the range of criteria relevant to the choice of location and the extent to which suitability of locations is dependent on the nature and size of the activity to be moved.

King Sturge comparative assessment of locations¹

King Sturge examined 102 UK towns and cities (excluding London, the South East and parts of the Eastern region) with populations greater than 100,000. Exceptions to this approach were made to ensure the inclusion of areas of designated housing growth under the Government's Sustainable Communities plan; the representation of all regions in England and the inclusion of a handful of areas within the Eastern region that were not considered to be subject to local overheating.

The population threshold chosen by *King Sturge* was used to limit the size of the sample selected for analysis rather than to suggest that only larger locations are suitable destinations for dispersed activity. *King Sturge* are clear that the 102 sites they have examined are not a definitive list. They also noted that modern technology allows government activity more readily to be dispersed to smaller locations, including those in rural areas (an approach that has been exemplified by the transfer of jobs from Inverness to the Western Isles by Highlands and Islands Enterprise).

King Sturge collated a core set of data for each of the 102 locations consisting of:

- District population
- Population growth projection from 2000 to 2010
- Working age population
- Unemployment rate
- Average weekly earnings
- Total employment

¹ 'Comparative Assessment of Locations' A report prepared for Sir Michael Lyons by *King Sturge* property consultants, January 2004, available at www.hm-treasury.gov.uk/lyonsreview

- Catchment population (within 30 minutes)
- Built office stock
- Prime office rents (in town)
- Prime office rents (out of town)
- Current surplus in the Government estate

This information allowed *King Sturge* to take a view of the property and labour market capacity of each of the 102 areas.

King Sturge then developed six scenarios approximating to different categories of government work. Taking account of the varying sizes, skill needs and other requirements likely to be typical of these different types of work, *King Sturge* applied weightings to the dozen criteria outlined above, adding other variables as necessary, in order to create a set of rankings, tailored for each work type, for the 102 locations.

The work types considered by *King Sturge* were:

- Information support contact centres
- Interactive contact centres
- Back office processes
- Higher value back office functions
- Policy functions
- Science/technical functions

This methodology focussed on relative merit rather than seeking to make an absolute judgement about each location's suitability. *King Sturge* advised that the top quartile locations, and most of the second quartile locations, would be suitable for the respective work types, but that those in the third or fourth quartiles would be much less likely to prove successful.

The rankings were significantly different for each work type although big urban centres were more likely to do well regardless of work type, reflecting the larger range of resources at their disposal, including a greater number of graduates and others with higher level skills.

8.7 I did not see it as my role to advise departments where they should locate. I do not therefore offer the *King Sturge* findings as recommendations. Like *King Sturge* themselves, I saw the purpose of this exercise as essentially illustrative. It has highlighted the large range of locations available, demonstrated the power of collating a number of business case factors relating to particular places, and piloted a particular ranking methodology. It has helpfully highlighted some of the important differences between large city and other locations. The finding that bigger cities are more likely to have labour markets that suit higher-level functions is consistent with the evidence on the benefits of clustering discussed in chapter 4.

8.8 I have ensured that the full *King Sturge* findings and datasets are available to departments and other public bodies that wish to consult them. Much of the material was derived from publicly available sources. Beyond the shelf life of the *King Sturge* findings themselves, there is a need for data on the availability and price of property and labour, and other relevant factors, to continue to be collated in a form useful to departments.

Business benefits: the logic of a coordinated approach

8.9 While departments must choose their locations with reference to their own business needs, there are other, wider considerations that must be brought to bear on that business case.

8.10 One clear issue is that of “clustering” which was discussed in chapter 4. Similar, colocated organisations help to develop a dynamic pool of skilled labour which offers them and their employees greater choice. This in turn can encourage more employers to join. A significant cluster is also a more attractive draw for potentially relocating staff in London (and their partners and spouses), who are less likely to fear that they will be entering a career backwater.

8.11 *Experian* noted that clustering also offered departments the potential to exploit economies by way of shared premises and services; to promote synergies, for example, with research establishments, universities and existing regional presences, and to promote a more coordinated approach to policy development and delivery. *Experian* also note that a degree of clustering will maximise the economic impact of relocations and have other economic and social benefits.

8.12 Clustering raises some tricky problems for organisations looking for new locations. On the one hand, they do not want to join a labour market that is overheating, or in danger of becoming overheated – this can erode the savings and other advantages that justified the relocation. On the other hand, risks attach to becoming stranded as a principal employer in a small location. One head of department in particular emphasised to me the difficulties, both business and political. There can be problems of isolation, with the regional office feeling cut off from main departmental culture. The local labour market can be too small to sustain a healthy level of staff turnover. And disproportionate political and media interest is likely to attend any planned scaling back of activity.

8.13 A clear implication of the foregoing discussion is that there are judgements to be made about the optimum degree of colocation of government operations that cannot readily be arrived at by individual departments and sponsored bodies pursuing their separate business plans. Different parts of the government machine need to share information on their plans, helped and guided as necessary by the centre. Departments need to be able to take account of: the geographical distribution of other departments’ functions; where spare capacity may shortly arise as a result of organisational changes in other departments; and who is planning to move where.

Business continuity planning

8.14 Emergency planning is another aspect of locational decision making that may not best lend itself to a fragmented approach. Following the terrorist attacks of September 11 2001, both the public and private sectors have become much more aware of the importance of business continuity planning to ensure resilience in the face of emergencies. I was interested to pursue the possible relevance of disaster planning to the broader set of questions about government locations and I attempted to form some provisional views on this read-across.

8.15 Of particular interest to me was the extent to which Government thinking on disaster planning had adapted to the post-September 11 environment. My inquiries, including conversations with heads of department, helped me appreciate the extent to which that disaster had prompted improvements to emergency planning, including a focus on the resilience of financial systems.

8.16 I took note of analysis from the United States of lessons learned from the impact of the September 11 attacks on the US financial services industry.² Under a section headed “major vulnerabilities” the report concluded that:

Disaster planning in the US: lessons of September 11

“...business continuity planning had not fully taken into account the potential for wide-area disasters and for major loss or inaccessibility of critical staff. Contingency planning at many institutions generally focussed on problems with a single building or system. Some firms arranged for their back-up facilities to be in nearby buildings on the assumption that, for example, a fire might incapacitate or destroy a single facility. Very few planned for an emergency disrupting an entire business district, city or region.

As a result some firms lost access to both their primary and back-up facilities in the aftermath of the September 11 events, severely disrupting their operations. Institutions also generally had not considered the possibility that transportation of personnel could be significantly disrupted and preclude the relocation of staff to alternate sites”.

8.17 This analysis goes on to characterise the approach found wanting here as one based on a “traditional active/back-up model” and contrasts this with an “active/active” model based on widely separated active sites which can provide back up for each other with very little delay, and without the need for the physical movement of staff. Such an approach would address many of the vulnerabilities here identified. These and other models are also set out in recent UK guidance³.

8.18 This American analysis would appear to have clear relevance for the Government. An “active/active” model of continuity planning in the UK would suggest government collocating essential functions in a number of key sites outside London, characterised by the presence of a substantial body of senior staff, some spare capacity and flexibility arising from the size of operation, and the latest communications technologies to link up with each other and with London. Such sites would be quickly able to take on and effectively lead, for an extended period if necessary, an additional emergency workload from London.

8.19 Such a model would imply a clear central strategy and a high degree of coordination across government, with the emergency plans of individual departments and bodies consistent with the overall approach. It would also go beyond a focus on localised incident management, to reflect an understanding that disruption to London could be widespread and longer-lasting. It is not clear to me from my inquiries in this area that the current UK model fully fits these criteria and in particular I detected room for a greater degree of central coordination. I have noted with interest that a key driver of the Japanese relocation policy is the need to improve government resilience (in this case against the threat of earthquake).

² “Summary of lessons learned and implications for business continuity”, discussion note by Federal Reserve, New York State Banking Department and others, February 2002.

³ For example on the UK Resilience website at www.ukresilience.info

Economic and regional policy implications

8.20 In chapters 2 and 4, I examined the policy objectives that inform the Government's interest in locations, and the evidence of the economic and social impacts arising from the relocation of government activity. These give rise to a number of factors that locational planning needs to take account of if the Government's wider objectives are to be met. The current arrangements for departmental business planning mean that it is difficult for these factors to be fully addressed at the departmental level.

8.21 Government has an interest in:

- Ensuring that dispersal of activity from London and the South East secures the greatest possible economic impact, by reference to the optimum clustering of activities and taking account of the need for pay to be aligned with local labour market conditions;
- Boosting regional economic growth and narrowing disparities in growth rates between regions, in accordance with its high level target;
- Supporting growth in accordance with its Sustainable Communities plan, with a focus on the North, but also ensuring necessary housing growth in key locations in the South East;
- Reinforcing science-based economic clusters;
- Improving the performance of the English core cities – Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield⁴; and
- Securing greater devolution of decision-making to lower levels, including the support of elected regional assemblies where these are supported in regional referendums.

Each of these factors is relevant to questions about the future geographical distribution of government activity.

Taking responsibility for the future pattern of service

8.22 The considerations I have set out in this chapter lead me to conclude that the Government's interests are not best served by an approach in which the uncoordinated location decisions of individual departments and bodies shape the pattern of government service. Such an approach will limit the potential gains in efficiency and service quality. It will leave unmanaged the risks of overheating, and get no real purchase on the possibility of a more strategic approach to disaster planning. It will not be likely to maximise the economic and social impacts which the Government values.

8.23 The Government therefore needs to take responsibility for the pattern of its activities. How might this best be done? I remain clear that the organisational business case should be the main determinant of the choice of locations. A pattern of locations which is imposed from the top without due regard to the business needs of the organisation is unlikely to be sustainable.

⁴ "Competitive European Cities: Where do the Core Cities Stand?", Office of the Deputy Prime Minister, January 2004.

8.24 But Government's wider considerations need to be brought to bear. It is for departments to short-list locations in accordance with their business needs, based on up-to-date and comprehensive information of the kind that *King Sturge* produced. But central government needs to be able to guide the choice and where necessary challenge departmental preferences. In important respects that advice should help strengthen the organisational business case (for example, by steering departments away from locations which might be overheating). The final choice must meet business needs, but it should also be consistent with broader objectives.

8.25 In particular there is a need for:

- Information sharing about departments' plans: who is planning to go (or withdraw from) where?
- A strategic framework on locations, and guidance to departments on the back of it; and
- A coordinating mechanism to consider separate locational plans in relation to each other and against a broader perspective, and with a remit to challenge where necessary.

8.26 In the course of my review, the Office of the Deputy Prime Minister has signalled an interest in taking the lead for Government in developing the strategic thinking on locations, and guidance for departments, and has begun work. It will be for the Department to work this out in detail, but the evidence and analysis I have gathered for my review would suggest that their work should give emphasis to the following:

8.27 There is a need to affirm London as the appropriate location for the headquarters of UK government departments, in the interests of effective, joined-up government at the centre. As I argue elsewhere in this report, that is hardly a defence of the status quo, because it is meaningful only in the context of:

- A radical slimming down of Whitehall headquarters, informed by a much tighter understanding of what constitutes government headquarters functions;
- A firm line on the siting of new activities, back-office functions, arm's-length bodies, "intelligent delivery", regulators and inspectorates outside London and the South East.

8.28 There is a need to clarify the role that the major cities are likely to play in the future pattern of government activity which integrates a number of strands including:

- The labour market features of the larger cities, with the presence of relatively large numbers of people with higher-level skills, including recent graduates (as evidenced, for example, by the recent *King Sturge* work);
- The importance of clustering, including the benefits to government business and to regional economies of building stronger regional public service cadres (drawing on the analysis provided by *Experian*, the Core Cities and others);
- The objective of improving the competitiveness of the main English cities;
- The role that cities can play in furthering Government's objectives for devolution and decentralisation through offering a stronger counter-weight to London; and

- The role that they might play in a strategic model of disaster planning, in which London-based activities could be switched to other major centres in an extended emergency.

8.29 Equally, there is a need for analysis at the sub-regional level which helps clarify the distinctive features of smaller cities, towns and suburbs; their economic relationship to larger population centres, and the kinds of government activity they could best support. The factors examined by *King Sturge* are all important in this regard.

8.30 The strategic framework could highlight significant industry and research-led economic clusters across the country, and the potential benefits of collocating government activity, including research and scientific activity, with such clusters, to the benefit of both. I take note of the reported links between meteorological scientists and Exeter University as a factor relevant to the relocation of the Meteorological Office to Exeter, and of the earlier location in the West Midlands of Department of Trade and Industry officials concerned with the automotive industry. I also note that strengthening science and centres of excellence has been one of the objectives of the French decentralisation programmes.

8.31 It is important that the English regions and the devolved administrations are able to make an input into this framework. I see a particular role for the Regional Development Agencies, and their counterparts in the rest of the UK, in coordinating local intelligence, and in offering a view about the particular kinds of incoming government activity that would best fit with their regional economic strategies. This might include the sub-regional analysis that I proposed above, alongside encouragement to local authorities to focus on what is distinctive about their areas, so helping to bear down on wasteful and duplicative “bidding” for new employment. Regional agencies may also be able to spread knowledge on the methodologies most likely to maximise and lock in the economic and social impacts of relocated government activity.

8.32 In drawing up its strategic framework, the Government is entitled to express preferences based on its judgement of relative economic and social need across the country. In particular the Government should seek to clarify whether parts of the South East are deemed suitable locations for dispersed government functions. In my consultation, a number of correspondents argued a case for relocating activities to relatively deprived areas, such as Hastings, and to areas designated for housing growth, like Ashford in Kent.

9

Rethinking location

Summary

In seeking to reshape the pattern of its locations, Government faces an analytical challenge. It will need much clearer thinking to determine the functions which need to be in London, and a willingness to confront attitudes and ways of working which do not meet its objectives. In particular:

- The Government needs to continue the work prompted by this review to define the necessary constituents of a modern Whitehall headquarters, and as part of that to confirm the policy functions that are properly based in London.
- There is a need for the Government to showcase and overcome cultural resistance to communications technologies, including videoconferencing, and to become much more rigorous in defining the circumstances that justify face-to-face meetings in London.
- Ministers can set an example in their working patterns by being willing to accept advice from officials at a distance. And senior officials must be prepared to challenge working patterns that impose extra costs on the organisation.
- Government should acknowledge and tackle other cultural factors that might constrain thinking about locations. It should engage in “mythbusting” in the face of Whitehall received wisdom about past relocations, while addressing genuine problems and concerns, for example the fear that to be out of London is to be “out of the loop”.
- Departmentalism is a potential brake on dispersal opportunities that could arise from joining up government functions across organisational boundaries. There is a role for the centre in facilitating “joining up”, but service chiefs should also see this as a key part of their management responsibilities.

The analytical challenge

9.1 I have sought to demonstrate that the Government has scope to go much further in achieving a pattern of locations which best meets its objectives. In the next chapter I outline the actions that I believe the Government will need to take to realise its ambitions.

9.2 The Government needs clear underpinning analysis to inform these actions, and it must challenge assumptions and attitudes which no longer reflect its priorities. I have been conscious that thinking about location has been constrained in a number of ways. These can be summarised as follows:

- A lack of analytical clarity about the essential constituents of the department headquarters functions, including policy in particular, and their relationship to the wider organisation and those it does business with;

- Cautious thinking about the potential afforded by communications technologies to overcome physical distance, alongside unexamined assumptions about who should attend meetings, how often, where and at whose behest; and
- A relatively fixed and unchallenged view of ministerial working preferences helping to determine the balance of activity between London and other locations.

9.3 There were also some “softer” cultural factors that appeared to colour the disposition of departments towards issues of location. These include negative perceptions based on received wisdom about past relocations, particular concerns of senior civil servants, and departmentalism.

Headquarters functions and policy

9.4 I have argued that the Government’s ambitions to improve public service delivery and to devolve decision making responsibility nearer to the front line suggest the need for a radically slimmed down core of departmental headquarters in London. At the same time those functions which have no need of physical connection with the centre, or whose effectiveness would be enhanced by distance from the centre (arm’s-length bodies, functions closely linked to service delivery) should be presumed not to need a London location.

9.5 It is clear to me that Government lacks a robust analysis of the nature and purpose of different kinds of modern Whitehall headquarters; how they should relate to other parts of the government machine and the wider world; the functions they should contain; and the size they should be.

9.6 The Government is committed to slimming down headquarters, and in discussion with me permanent secretaries acknowledged that their departments needed to go in this direction. Similar moves are afoot in the corporate sector with *Boots* providing a recent example of efforts to streamline the centre alongside a strengthening of the front line. In the context of my review, the Office of the Deputy Prime Minister has offered and begun work on an analysis attempting to define the functions of the departmental headquarters, with input from a number of other interested parties in government. Note should be taken of the Irish Government’s radical thinking on the scope for regionalising headquarters functions, leaving very small secretariats in Dublin.

9.7 Nowhere is thinking more in need of tightening than in the area of policy. Departments’ responses to my review suggested that the civil service struggles to define policy, to articulate the distinct functions embraced by this catch-all term, and to construct a closely-argued rationale for retaining some of these functions in London. I found a tendency to apply the term “policy” in a very loose way, to suggest that policy functions were indivisible (or at the very least, difficult to disentangle), and to assert, rather than to demonstrate, the need for officials who have little, if any, direct contact with ministers and London-bound interlocutors nevertheless to be on hand in London.

9.8 Clarifying what is policy, and what parts of it are properly for London-based headquarters, strikes me as a necessarily central feature of the continuing work to define the modern Whitehall headquarters. It makes sense to take account of the analysis provided by Lord Haskins, to which I have referred in chapter 2. Account should also be taken of those departments which do have significant policy arms out of London, such as the Departments of Health and Education and Skills, and Inland Revenue.

- 9.9 I suggest that any analysis of what constitutes policy needs to take account of the following:
- Strategic development, standard setting and high-level performance monitoring are the policy functions most clearly associated with central functions, but it does not follow that all who are engaged in them need to be in London;
 - The work that supports the legislative process and ministers' Parliamentary duties needs to be led in London (but again not all of it necessarily needs to be conducted there, and not all of it is policy);
 - Some of what is currently regarded as policy in London may be duplicative or in other ways add little value, or even destroy value if it imposes hidden bureaucratic costs on delivery agents;
 - Use of modern communications technology in an inclusive, communicative, organisational culture allows policy makers to have extensive dealings with London while permanently based elsewhere;
 - "Intelligent delivery" or "operational policy" – that part of the policy process which closely informs the design and delivery of government programmes – may work better if colocated with delivery agents;
 - Policy with a strong regional dimension, or which underpins programmes which are regionally specific, or regionally differentiated, might be better based within the Government Offices for the Regions; and
 - Devolution of the decision-making power to delivery agents or other tiers of government will sometimes be the best option.

9.10 Early in my review I was keen to explore whether national policy might be done differently or better if done out of London, and I hoped the consultation might throw some light on this question. A number of people suggested to me that government policy was prone to bias because the outlook and understanding of policy makers was coloured by their London environment. For example, it was suggested that housing policy was overconcerned with shortage (a problem in the South) and too little concerned with excess supply (a problem in the North), and that this reflected a Southern outlook. As might be expected, this notion was hotly contested by some in Whitehall.

9.11 On the basis of the evidence I gathered, I am not able to conclude that national policy would be done differently or better outside London, though it is clear to me that policy that relates to particular areas must be informed by good local intelligence. It is also clear from the experience of such departments as Health and Education and Skills that national policy can be and is done perfectly well out of London, and that such departments are able to draw on a correspondingly wider pool of talent.

Communications technologies and meetings in London

9.12 I am clear that the tendency to regard the headquarters and policy functions as indivisible is in part conditioned by perceptions of how effectively an organisation can operate across physical distance using modern technology. The responses to my review revealed considerable variation in the degree to which departments embraced and factored into their planning the possibilities afforded by modern communications technologies. It was also clear that there were many examples of good practice to be learned from, in both the public and private sectors.

9.13 An example of a department that has adopted modern technology enthusiastically is the Department for International Development (DFID). The department operates across the world (though also between London and Scotland) and therefore has a particularly strong business rationale for finding alternatives to expensive and time-consuming travel. Nonetheless the lessons from DFID, as set out in the box below, have wider applicability. Above all the DFID experience illustrates what can be achieved when a department's embrace of technology is led from the top down, and regarded as central to its core business.

Department for International Development (DFID)

DFID makes heavy use of communication technology, including satellite and ISDN links and videoconferencing. It has about 100 videoconference suites, half of which are in the UK, and a remote working system that can be dialled into from anywhere in the world using a laptop. Ministers fully support the technology as do senior managers. The permanent secretary has videoconferencing facilities at home.

- The costs of £4m for bandwidth installation and £4 million for videoconferencing equipment are expected to be recouped within two years;
- Each trip saved between London headquarters and East Kilbride saves £250 in air fares and four hours of travelling time;
- The £10,000 cost of installing videoconferencing facilities in Bangkok was estimated to have paid for itself after four uses; and
- The technology allows ministers to engage in, for example, a simultaneous link-up with nine southern African presidents and the United Nations, without leaving the UK. It allows ministers and officials to participate in meetings which it would be impractical for them to attend.

DFID recognises that using videoconferencing effectively requires a different culture. The department has sought to invest in technology that is sufficiently reliable, but also to ensure that staff are comfortable with it. Emphasis is given to training, including the etiquette peculiar to videoconference meetings, as a result of which staff, over time, have become more disciplined, structured and time-efficient in their use of the technology.

DFID report that the use of modern technology has improved staff productivity by providing faster, more reliable communications, better access to web-based knowledge and information and in the case of videoconferencing reduced the need for, and expense of, travel. The equipment is sufficiently up-to-date that DFID are able to send secure confidential documents around the world.

9.14 I have encountered the notion that while videoconferencing has a part to play in routine transactions and in the straightforward transmission of information, it cannot substitute for face-to-face interactions when there is high level and sensitive business to conduct. The DFID example suggests otherwise. I was also particularly struck that videoconferencing was used during the peace negotiations that led to the 1998 Belfast Agreement.

9.15 The Government may need actively to showcase and promote the benefits of communications technologies, using the examples I have highlighted in this report, and others. This will help overcome any resistance which can be traced to unsatisfactory personal experiences of the technology in its earlier, less useable (and perhaps badly used) incarnations.

9.16 I do not want to argue that there is a simple opposition between videoconferencing and face-to-face meetings. For one thing, video is only one of several available communication technologies. It is too early still to assess the likely impact of the next wave of wireless and broadband-enabled technologies. Nor should we overlook the possible impact of technologies yet to come, bearing in mind how quickly e-mail, the internet and mobile phone have transformed working methods.

9.17 Meanwhile, it would be a mistake to overlook the humble telephone and the power of telephone conferencing (routinely used, for example, by the Department for Education and Skills to link its sites in London, Sheffield, Darlington and Runcorn). As *Experian* reported: “*Telephone is far from being obsolete in the age of e-mail and videoconferencing and is often the preferred communication method in large, dispersed sectors, such as consulting and financial services*”.

9.18 It would be naïve to suppose that face-to-face meetings can be entirely replaced by electronic means, even supposing that such a state of affairs were desirable. But it is plain to me that there is scope for more rigorous thinking in departments about the circumstances which justify face-to-face meetings, particularly where these incur considerable costs in travel and staff time. A number of cultural factors might affect the propensity to schedule face-to-face meetings, and the propensity of others to attend them. The need to demonstrate visibility and availability (and fear of what might be decided in one’s absence) can be powerful influencers, particularly if those travelling into London start from a position of feeling marginalised within their London-centric organisations.

9.19 It might repay the Government, in the context of its search for improved efficiency, to take a close look at the culture of London meetings and the extent to which it is shaped by such organisational and social-psychological factors. One useful measure of the effectiveness of face-to-face meetings might be the number of participants who are empowered to offer views or take decisions on behalf of their organisations (rather than simply to take notes and report back).

Ministerial preferences

9.20 Ministers themselves have a powerful influence on the geographical expression of their departments’ business. The requirement for staff to be located in London, the need for regionally-based staff to travel frequently to London: these are commonly explained by reference to the needs, demands and predilections of ministers including, in some cases, their reported reluctance to conduct serious business by video conference.

9.21 If ministers are to take forward their commitment to reshaping the pattern of government business, it follows that they will need to set a good example in relation to their own departments. One way to do this would be to signal to their organisations, for example in their approach to communications technology, that they are prepared to conduct serious business electronically. A good example is set by the Secretary of State for International Development, Hilary Benn MP, who reported to my review:

“Videoconferencing is a way of life in DFID. With our staff and partners based all over the world, it makes sense and saves money to conduct as much business as possible remotely. This has worked extremely well for us. DFID staff frequently talk to their international counterparts and colleagues in other countries using the videoconferencing system, saving time and money on travel. And, I can get advice when I need when it without our staff in our country office having to travel all the way to London. It really does work!”

9.22 Ministers may also want to reflect on the geographical pattern of their working week and whether it offers the opportunity for them to spend some time based in – or linked to – offices of their department outside the London headquarters. A relevant consideration is the location of the minister’s home and constituency, bearing in mind that only a minority are based permanently in London. Such an approach is not without precedent and is currently best exemplified by Northern Ireland Office ministers, who divide their working week between London and Belfast. It was also the pattern of Scottish and Welsh ministers before devolution.

9.23 Meanwhile, it is the duty of civil servants to provide objective advice on the cost and other organisational implications of ministerial choices (bearing in mind that department heads are accountable to Parliament for their management of departmental resources, and that the impact of significant organisational change is likely to outlive the tenancy of many a minister). If a minister’s preferences are felt to impose unjustified costs, it is the job of the permanent secretary to say so, while respecting the final decision.

Cultural factors

9.24 Discussions with departments suggested to me that there are recurrent themes in Whitehall thinking that seem to constitute a kind of mythology about relocation, including the beliefs that relocation works only for low-grade clerical work; that past relocations have been problematic; and that in particular split headquarters do not work, with regional sites perennially marginalised and senior staff spending their lives on trains or quietly returning to London.

9.25 Like many myths it has a basis in fact, having been informed by some of the problems that *Experian* found in past relocations and which I have reflected in chapter 3 and chapter 7. But it is also inaccurate, exaggerated and prejudiced. The Government needs to ensure that departments can learn from past mistakes, but it may also need to engage in some mythbusting.

9.26 In the case of senior staff (who I have argued may need to be the particular target of relocation drives), there will be additional concerns to contend with, including the possibilities of career isolation, and these are examined in chapter 7.

9.27 Finally, thinking in Whitehall tends to flow within rather than across departmental boundaries. Two decades’ progressive delegation of autonomy to departments and their bodies has brought clear benefits, but there is a growing realisation of a downside. The Prime Minister recently commented that *“too often government’s structures reflect vested interests and tradition. Departmentalism remains strong in Whitehall - usually too strong - and the allocation of ministerial portfolios sometimes unhelpfully reinforces these barriers.”*²

9.28 This is problematic for a Government which sees the potential for efficiency and service quality improvements through joining up functions across organisational divides. Joining up will also provide new opportunities for rethinking locations. Permanent secretaries, in their discussions with me, acknowledged the limitations of departmentalism, spoke about attempts across government to join things up, and indicated that they would welcome stronger steers from the centre, or even direction, on certain matters.

9.29 Such steers and directions may come – and I recommend in chapter 10 three particular aspects of government that will need tighter coordination. In the meantime, it is unclear to me how strongly service chiefs believe themselves to have a personal responsibility, as part of their management remit, to join up with others. It is a responsibility that may need emphasising in the context of my review.

² From a speech on civil service reform delivered on 24 February 2004.

10

An agenda for action

Recommendations

1. Departments have identified more than 27,000 jobs that could be taken out of London and the South East, including about 20,000 jobs for dispersal as a first tranche. Plans for these dispersals should be taken forward urgently as part of the Government's forthcoming spending review.
2. Major dispersals are unlikely to offer a quick payback and they incur considerable costs up front. Government must be prepared to make the necessary investment. Equally, there is a strong case for sharper incentives to encourage departments to seek the benefits of locations out of London and to keep their presence in the capital to a necessary minimum.
3. Departments should implement their relocation plans alongside efforts to align their pay with local labour market conditions. My review has demonstrated that failure to make progress on locally flexible pay will limit the efficiency gains from dispersal, and could undermine the economic benefits for receiving locations.
4. Whitehall headquarters should be radically slimmed down, reflecting a clearer understanding of what is really needed in London, and of the distinction between policy and delivery.
5. There should be a strongly enforced presumption against London and South East locations for new government bodies and activities; for functions such as back office work and call centres which do not need to be in London; and for bodies and functions whose effectiveness or legitimacy would stand to be enhanced by a location outside London.
6. Cabinet needs to give continuing political impetus to the locational agenda. Leadership should be provided by a Cabinet Committee and, in the short term at least, a lead minister. These arrangements should be supported by a small short life unit at the centre, to act as a ginger group, to monitor and report on progress with dispersals, and to ensure that best practice is disseminated and embedded.
7. Permanent secretaries and other public sector chiefs are responsible for managing their departments' resources, accounting to ministers and to Parliament. Locational considerations must be an integral part of these responsibilities. The aim should be to mainstream the locational aspect of business planning.
8. The Government must take responsibility for the whole pattern of its locations, developing a strategic framework of guidance for departments and ensuring a mechanism for reviewing and where necessary challenging departments' locational preferences.
9. The Government office portfolio must be much more tightly managed. In particular, exits from London should be coordinated to ensure overall value for money and to strengthen individual relocation business cases.
10. The civil service needs a more coordinated approach if it is to minimise the costs and the adverse impacts on staff associated with relocation and redundancy.

Introduction

10.1 I was asked to advise ministers on the relocation of public servants out of London and the South East. If the Government wishes to make a significant difference to the pattern of its locations it will need to take action on a number of fronts. I have set out in broad terms the platform on which the Government should build, bearing in mind that I do not consider it my business to prescribe in detail how this should be done.

10.2 I have proceeded in the knowledge that ministers are themselves committed to dispersing government activity out of London and the South East. The actions I have suggested are consistent with the evidence and with the Government's objectives.

10.3 The Government's own commitment was signalled by the Chancellor of the Exchequer and Deputy Prime Minister when they commissioned my review in April 2003, and it was reinforced in November 2003 when the Cabinet agreed a set of principles informed by my emerging conclusions. These are outlined in the box below.

Principles for relocation agreed by Government: a summary

"The current concentration of government activity is not optimal in terms of efficiency, effective delivery and the needs of the UK outside London and the South East.

The Government is committed to realising the benefits of well-planned dispersals of public sector activity from London and the South East. These benefits include enhanced efficiency and service delivery, social and economic benefits across the UK, and improved governance, including paving the way for further devolution of national Government responsibilities.

Heads of Departments and sponsored bodies will be responsible on a continuing basis for realising the benefits of relocation and will be held accountable for exercising this responsibility. Heads of department must integrate relocation with their wider reform programmes, in particular the search for greater efficiency, and the development of pay and workforce strategies.

Relocation will be driven by individual departments' business plans, developed in the context of Government's wider objectives for efficiency, economic and social impact on different UK locations, and good governance.

There is an automatic presumption that new or reconstituted government activities will be located outside London and the South East.

Departments and their sponsored bodies need sharper incentives to keep their presence in London and the South East at the most appropriate level and to help realise the cost savings and other benefits of relocation.

Departments or sponsored bodies wishing to enter into or renew a significant property commitment in London must continue to seek Treasury approval.

There will be stronger central coordination of the civil estate in the interests of greater efficiency and in particular to facilitate the sub-letting of properties vacated by government bodies in London, to drive through savings, and to ensure a joined-up overview of the pattern of regional locations.

Departments will benefit from a broadly common approach to the staffing dimension of relocation, including the early engagement of trade unions, following best practice in the design of relocation packages, pursuing a voluntary approach to movements of staff where possible and seeking to reabsorb elsewhere in the public sector staff who do move with their relocated posts."

10.4 As the basis for action, these principles remain sound. Much of my work between November 2003 and March 2004 has been to refine the underlying understanding. It has reinforced my belief that the geographical pattern of government activity needs to be reshaped if the Government is to realise its ambitions for improved efficiency, public service reform, regional economic growth and devolution.

Implementing departmental proposals

Recommendation 1. Departments have identified more than 27,000 jobs that could be taken out of London and the South East, including about 20,000 jobs for dispersal as a first tranche. Plans for these dispersals should be taken forward urgently as part of the Government's forthcoming spending review.

10.5 In Annex A, I have set out some of the detail of departments' location proposals, my assessment of them, and my views on the implementation agenda for each of the main departments. These include the recommendation that proposals are turned into firm, timetabled plans. I have also specified a number of functions and bodies that strike me as offering potential candidates for dispersal, subject to further business planning.

10.6 In many cases, I have urged departments to go further in dispersing operational activities and in slimming down London headquarters. The 2004 spending review provides important leverage for the Government and an excellent opportunity to capitalise on the planning that departments have done in the light of my review. If the opportunity is not grasped, the energy and momentum generated by this work is at risk of being dissipated.

10.7 Departments' locational plans will need to be refined as necessary to ensure consistency with the broader efficiency agenda. It is particularly important that departments do not relocate activities which are likely to be scaled down or otherwise transformed as a result of efficiency measures. On the other hand, broader efficiency concerns must not become an excuse for inaction on dispersal. Rethinking locations itself creates opportunities for organisational reform.

10.8 Departments' concerns about the potential for relocation to disrupt delivery priorities are legitimate. The remedy is careful planning. There is never a perfect time to make major change and concern about business continuity must not become a reason for inaction.

Recommendation 2. Major dispersals are unlikely to offer a quick payback and they incur considerable costs up front. The Government must be prepared to make the necessary investment. Equally, there is a strong case for sharper incentives to encourage departments to seek the benefits of locations out of London and to keep their presence in the capital to a necessary minimum.

10.9 The Treasury will need to consider in the context of the forthcoming spending review how departments can best be enabled to meet the up front costs of dispersal and to develop appropriate incentives. The need for up front investment cannot be ducked if the Government is to realise the full scale of the potential benefits from dispersal, as set out in this report. It has to be recognised that government bodies do not have the freedoms available in the private sector. There are strict limits on the possibility of borrowing to invest, on the capitalisation of current costs and on the recycling of capital receipts.

10.10 While up front costs can be high, they can also be reduced, as this report has sought to demonstrate. Coordination of moves from London will reduce early lease-exit penalties and unnecessary redundancy costs. Phased moves can take advantage of lease-breaks and staff attrition, and allow a greater emphasis on building up activities in other locations, rather than relocating them out of London. The longer term benefits will be enhanced by building re-engineering into locational change and improving pay flexibility (see below). Departmental business plans need to be refined in light of these factors.

10.11 More effort also needs to be put into incentivising departments and their bodies to look at other locations and deterring them from maintaining a presence in London beyond that which is necessary for effective government. The heavy concentration of government activity in London, despite high costs, suggests that the impact of price signals on departments is weak. Treasury should lead work for the Government on strengthening incentives and examine a range of options, including budgetary controls and other mechanisms. One possibility would be a compulsory “levy” on London-based employees. The trick here would be to find a mechanism that had a real and desired impact on behaviour.

10.12 This work should consider the lessons to be learned from the funding regimes for executive agencies. I believe it is no coincidence that executive agencies have been prominent among those organisations held up as exemplars in relocation, demonstrating clear focus on business needs, and strong leadership in executing moves and securing the subsequent business improvements. These bodies have also enjoyed managerial and financial freedoms as arm’s length bodies, and a clear mission.

Recommendation 3. Departments should implement their relocation plans alongside efforts to align their pay with local labour market conditions. My review has demonstrated that failure to make progress on locally flexible pay will limit the efficiency gains from dispersal, and could undermine the economic benefits for receiving locations.

10.13 The public sector has national pay frameworks which have tended to limit the extent to which pay mirrors local labour market conditions. The emphasis of Government policy is now on seeking greater flexibility within these frameworks. In the absence of a move in this direction departments will not realise the full cost savings which could arise from relocating activity out of London, and they risk undermining the positive economic impact of such moves by displacing local employment. It was striking that departments in their responses to my review by and large did not display how pay policy issues influenced their thinking on locations.

Beyond departmental proposals

10.14 Departmental proposals to my review constitute a promising start and they will give rise to what can be regarded as a first tranche of moves. They far from capture the full extent of opportunities to reshape the pattern of government locations. Some of these opportunities will arise from ambitious reforms that may take time to emerge, for example the joining up of back office functions across government. But the Government should be alive to what can be captured earlier, using in particular the leverage of the forthcoming spending review.

Recommendation 4. Whitehall headquarters should be radically slimmed down, reflecting a clearer understanding of what is really needed in London, and of the distinction between policy and delivery.

10.15 There is considerable scope for achieving a new pattern of London headquarters, more closely integrated with each other and housing only the functions which are essential for the direct support of ministers and the highest level of policy coordination.

10.16 This recommendation is consistent with wider thinking about Whitehall headquarters and it reflects current practice in the corporate sector. I envisage that the slimming down of headquarters will include a combination of relocations and job reductions. That is exactly what has been proposed in the context of my review by, for example, the Department of Trade and Industry and the Department of Health.

10.17 Sharp analysis will help focus the effort to slim down departmental head offices and clarify: the purpose of different kinds of modern Whitehall headquarters; how they should relate to their wider family of operations, the rest of the government machine and the wider world; and the functions they should contain. The Government's latest thinking on policy and delivery, and the recent Haskins review, are relevant here.

10.18 In the context of my review, the Office of the Deputy Prime Minister has begun to develop such an analysis, with the aim of producing an effective analytical tool for departments, and this welcome work should be concluded in collaboration with the Cabinet Office. The Government may make quicker progress in this area if it sets targets for London headquarter contingents. These would need to be informed by further analysis, including what can be learned from recent practice in the corporate sector. The radical thinking of the Irish Government on the scope to relocate headquarters functions may also be instructive.

10.19 Work on slimming headquarters goes hand in hand with achieving greater clarity about the distinction between policy and delivery, taking account of:

- the Government's strong emphasis on delivering measurable outcomes;
- the need to bear down on duplication, second-guessing, low value monitoring and activities that impose an unnecessary bureaucratic burden on delivery agents;
- the potential to improve "intelligent delivery" of national programmes delivered locally, by collocating with delivery agents policy staff involved in the design, implementation and evaluation of programmes, and associated intelligence gathering;
- the benefits of regionalising national policy functions to reflect regional variation;
- the Government's policies on the devolution of decision-making powers.

10.20 Calls for government departments to be relocated out of the political capital are unrealistic, and cut across the objective of improving joined up government at the centre. The same argument does not apply to operational functions of government and arm's length bodies.

Recommendation 5. There should be a strongly enforced presumption against London and South East locations for new government bodies and activities; for functions such as back office work and call centres which do not need to be in London; and for bodies and functions whose effectiveness or legitimacy would stand to be enhanced by a location outside London.

10.21 The existing presumption against Southern locations¹ does not appear to carry great force. Bodies which have recently been located in or earmarked for London include the Serious and Organised Crime Agency, OfCOM and the Commission for Healthcare, Audit and Inspection. The presumption needs some traction if it is to withstand the gravitational pull of London (which in the case of new bodies can be strengthened by the preferences and domestic locations of the putative chiefs).

10.22 I am attracted to the approach developed by the Scottish Executive, in which the creation of a new unit or agency automatically triggers the consideration of an out of Edinburgh location. Analogous arrangements are needed for the UK Government as part of the arrangements for coordinating the pattern of government service.

10.23 My review has demonstrated the case and scope for the further dispersal of:

- Departmental operations which are relatively self-contained and which can in principle be located anywhere in the UK, including internal processing or back office work such as finance, personnel and IT, and transactional services like customer contact centres. Dispersal needs to go hand in hand with rationalisation;
- Executive agencies and national operational activities which stand to make efficiency gains and improve service quality;
- Executive non-departmental public bodies and regulators and inspectorates whose legitimacy, authority and independence stand to be enhanced as a result of greater distance from Westminster. The Norwegian Government's intention to relocate regulatory bodies is instructive here.

10.24 This review has not prompted a detailed examination by departments of the opportunities to relocate the remaining public corporations such as the BBC, Channel Four, Post Office, Bank of England and Civil Aviation Authority. They are small in number but employ thousands of people, many in London. The Government should now start to focus on the dispersal opportunities that these bodies present.

Leadership

Recommendation 6. Cabinet needs to give continuing political impetus to the locational agenda. Leadership should be provided by a Cabinet Committee and, in the short term at least, a lead minister. These arrangements should be supported by a small short life unit at the centre, to act as a ginger group, to monitor and report on progress with dispersals, and to ensure that best practice is disseminated and embedded.

¹ As set out in paragraph 2.4 of the White Paper "Your Region, Your Choice", Cm5511, May 2002.

10.25 The Cabinet has already committed itself to realising the benefits of a better balance of government locations, endorsing the principles which I have outlined in this chapter. Ministers need collectively to maintain the momentum. It would be paradoxical for a report concerned with improving efficiency to recommend new government machinery. I therefore propose that an existing Cabinet Committee has its terms of reference extended to include a responsibility for the locational agenda. Suitable candidates might include the committees that oversee public expenditure or domestic and regional affairs.

10.26 Its remit should be to ensure that the evolving pattern of government locations meets the Government's objectives for efficiency, regional development and governance reform.

10.27 The designation of a lead minister could be a temporary measure to ensure that momentum and commitment are maintained as departments move to implement the proposals they have shared with me. More generally, ministers have an important role in securing improvements to the geographical spread of activities within their own departments.

10.28 In keeping with the presumption against new bureaucracy, I propose that the official unit should be small and time-limited. It would need to coordinate its activities with the parallel and continuing efforts to secure significant efficiency savings across government.

Recommendation 7. Permanent secretaries and other public sector chiefs are responsible for managing their departments' resources, accounting to ministers and to Parliament. Locational considerations must be an integral part of these responsibilities. The aim should be to mainstream the locational aspect of business planning.

10.29 I am eager for thinking about locations to be embedded in government processes, and for the existing responsibilities of departmental heads to be strengthened to include a clear focus on achieving a pattern of service which best meets their departments' efficiency and delivery requirements. Service leaders' existing management responsibilities, accountabilities and performance management arrangements may need to be revised to reflect this new focus on location.

10.30 The approach I am keen to see mainstreamed is not unprecedented. It is one that I believe has characterised a number of business-focussed relocations in the more executive arms of government in recent years, and I have shown examples in this report.

10.31 I see an important role for the Cabinet Secretary, in supporting Cabinet's renewed focus on location, consistent with the leadership he has exercised in ensuring that the civil service is equipped to deliver the Government's reform and modernisation programmes.

10.32 Given the evidence I have reported suggesting links between past location decisions and ministers' constituency interests, it is important that permanent secretaries advise robustly on matters of propriety and that ministers ensure that they are not involved in location decisions which have a bearing on their constituency interests.

10.33 A business-led approach to location demands that decisions are evidence-based. Proper management information is vital, and I was dismayed to discover that basic data on vacancy rates in London were not being systematically tracked. There is a need for postcode analysis so that location decisions can be informed by a detailed grasp of where staff live. There is also a pressing need for more evaluation of the impact of location decisions on government business and on the locations affected. A striking finding of my review was that systematic evaluations, whether internal to government or as a result of academic interest, were thin on the ground.

10.34 The mainstreaming of locational considerations would be further reinforced by ensuring that location is built into reviews and exercises that departments are routinely required to undertake – for example periodic reviews of NDPBs, including scientific establishments, and pay and workforce strategies.

Government acting collectively

10.35 I have identified three important respects in which the Government must work collaboratively across organisational boundaries to achieve the best value for money and regional impacts. These aspects need ministerial impetus, leadership at official level and mechanisms for the centre to act as a clearing house and, where necessary, to challenge departmental autonomy.

Recommendation 8. The Government must take responsibility for the whole pattern of its locations, developing a strategic framework of guidance for departments and ensuring a mechanism for reviewing and where necessary challenging departments' locational preferences.

10.36 The overall geographical pattern of government locations has an important bearing on the Government's objectives for efficiency, the reform of public services, regional economic growth, competitiveness and devolution. The Government therefore has an interest in this pattern and is entitled to express preferences based on its judgement of economic priorities. The Government should not be content for departments to pursue their separate locational plans without reference to each other and to broader concerns.

10.37 The departmental business case should remain the principal determinant of locational choices. But departments need to develop their business cases with reference to a strategic framework, reflecting Government's overall efficiency, productivity and regional policy concerns. I welcome the fact that in response to my review the Office of the Deputy Prime Minister has begun to develop such a framework. It should reflect the evidence I have reviewed in this report of the benefits of clustering activities to achieve the strongest efficiency and economic impacts. Devolved administrations and regional development agencies have an important contribution to make to this framework.

10.38 The Government also needs a mechanism for overseeing and where necessary challenging the locational preferences of individual departments and public bodies. This may include a role for the Cabinet Committee charged with responsibility for location matters.

Recommendation 9. The Government office portfolio must be much more tightly managed. In particular, exits from London should be coordinated to ensure overall value for money and to strengthen individual relocation business cases.

10.39 As a result of my review, the Treasury agreed in the autumn of 2003 to exercise a degree of control over government's property holdings in London, by requiring departments to consult it before entering into fresh property commitments in London. These arrangements, which may need to be strengthened, together with the existing role of the Office of Government Commerce (OGC) in property matters, form the basis of the tighter management I am advocating.

10.40 This will require a stronger central oversight; a vision of Government's aggregate accommodation needs in London, and the ability to facilitate effective collaboration between departments to realise that vision. It is likely to entail a dialogue between the Government and the main office landlords in London. In the absence of such co-ordination, the prospect of heavy lease exit penalties is likely to inhibit dispersal proposals which in other respects would be justified on business grounds. Conversely, there is a need to manage exits from London to ensure that office property prices are not artificially depressed by government's own actions. The relocation of 20,000 posts would entail the vacation of some 300,000 square metres of space.

10.41 The need for a stronger grip on the Government's London estate is pressing. During my review I was made aware of instances in which, despite the efforts of the OGC, avoidable lease exit penalties were triggered because government departments were unwilling to compromise their requirements by moving into premises vacated by others.

10.42 The Government's regional office estate will also need greater coordination as part of the arrangement for ensuring a managed pattern of locations.

Recommendation 10. The civil service needs a more coordinated approach if it is to minimise the costs and adverse impacts on staff associated with relocation and redundancy.

10.43 I have suggested that a viable model for dispersing activities is likely to emphasise relocating senior and specialist staff that are vital for business continuity, and to seek to redeploy those staff who do not relocate in post, or whose posts are removed. This is likely to minimise the costs and adverse human impacts of relocation, while strengthening the economic impact on receiving areas.

10.44 Such a model presupposes a common understanding of best practice in constructing relocation packages, and arrangements that make best use of the opportunities to redeploy staff across the civil service, rather than making them redundant. None of these conditions currently applies, reflecting the fact that such matters are mostly delegated to individual departments, with considerable variety in practice.

10.45 I am encouraged that during my review the Cabinet Office has begun to address these issues with a view to achieving a greater degree of common practice and collaboration across government. This work should be brought to a productive conclusion. There is a need to promote redeployment across the wider public sector, in the interests of improving recruitment in vital public services, particularly in London.

Conclusion

10.46 I have set out an approach which emphasises the need to mainstream location as an aspect of business planning; to provide clear leadership; and to ensure that in key respects government acts in a coordinated way to maximise the business and economic benefits of a better pattern of government. If this suggested plan of action is followed, there will be a real prospect of government becoming better placed to deliver.



Departmental summaries

39 departments were asked to submit relocation proposals to the review by September 2003. This annex summarises each set of proposals for the main 18 departments, and gives an assessment of them, based on the framework set out in chapter 6. Each summary sets out an implementation agenda for the department concerned. A single summary covers the 21 smaller departments in aggregate. The assessment takes account of further exchanges with departments up to March 2004.

Tables showing the geographical patterns of departments, before, and after, proposals

Each summary includes a table showing the current geographical pattern of the department, and what the pattern would be once all proposals are implemented, including the impact of any expected staff reductions, where the department highlighted these in their submissions. These figures do not reflect any possible changes to staff numbers as a result of further efficiency measures. Details on what has been included in each of the tables are given in the text for each summary.

Definitions

In each of the tables, staff numbers, and their geographical pattern, are shown for a) each department, before and after proposals are implemented, and b) for each departmental group, before and after proposals are implemented. The definitions for department, and “department group” are the same as those used for the baseline table shown in chapter 5 of this report. “The department” covers the department alone, whilst “department group”, covers the department, its executive agencies and non-departmental public bodies, and any other sponsored bodies. The figures showing current geographical patterns, before any proposals are implemented, are the same as those shown in the baseline table in chapter 5.

The Ministry of Defence is treated differently – the two sections show civilian, and military staff, instead of “department” and “department group” figures. Again, this is the same as is shown in the chapter 5 baseline table. The presentation of the Chancellor’s departments also varies.

Unless otherwise stated in summaries, the numbers shown are: full time equivalent, permanent staff. They include both industrial and non-industrial staff, although, with the exception of the Ministry of Defence, the vast majority of staff are non industrial. The numbers were correct as at June 2003, and reflect further comment from departments up to March 2004. Their source is information submitted to the review by individual departments.

CABINET OFFICE

		Total number of staff	Number of staff in London and South East	per cent of staff in London and South East
Cabinet Office	Current pattern	1,856	1,709	92
	Pattern if all proposals implemented	1,856	1,459	79
Cabinet Office group	Current pattern	2,141	1,994	93
	Pattern if all proposals implemented	2,141	1,744	81

History and context

The Cabinet Office defines its role as providing a strong centre to make government more effective. Its four objectives are to:

support the Prime Minister in leading the government, build capacity across government, coordinate policy across government and promote standards across government.

The Cabinet Office has around 1,400 posts in London, mostly in Westminster, and a further 300 posts in the South East, mainly in Sunningdale, Basingstoke and Guildford. Some 150 posts are spread across the rest of the United Kingdom in the Government Offices for the Regions, Her Majesty's Stationery Office (HMSO) in Norwich, and Emergency Planning College in Easingwold in Yorkshire. The Government Car and Despatch Agency, the Department's only agency, has some 280 posts in London. The Cabinet Office is responsible for a number of small advisory public bodies included in the above figures.

The main activities carried out in London cover public sector delivery and reform, communications and corporate services, secretariat functions, government information and communications, Parliamentary Counsel and the Whips Offices. The Civil Service College is at Sunningdale, and financial and pension services are at Basingstoke.

Proposals to the Independent Review of Public Sector Relocation

The Cabinet Office identified four operations covering around 250 posts that could be moved out of London and the South East, although some of these could, instead, be made redundant. These include posts from the Office of the e-Envoy, Histories and Records functions and the Corporate Development Group as well as London-based HMSO. The Department considers that there may be scope for relocating other parts of corporate services covering 120 posts, although further work needs to be done before they could be turned into firm proposals. The Cabinet Office has not specified alternative locations but has indicated that colocation with other government activities would be favoured to allow for shared support services and for career development. Around 30 per cent of the Department's staff are currently on loan from other departments' central headquarters functions, and the choice of locations would take account of the need to continue to draw on this market.

Greater use of information and communications technology for remote working was also considered but the Department concluded that the high level of influencing, communication and coordination it undertook required considerable face-to-face contact in London.

The Department concluded that the majority of its functions needed to be based in London and that no large unit could be relocated in its entirety.

Assessment

These proposals are significant given that the Cabinet Office is a relatively small department at the centre. Together with the possibility of a further 120 posts they would represent some 26 per cent of London based staff excluding the Government Car and Despatch Agency. These proposals should now be worked up and implemented.

The Department could go further in identifying the scope for modern information and communications technology to reduce the need for face-to-face meetings. Its assumptions about the availability of loaned staff outside London need revisiting in the light of the findings of this review.

The review was not persuaded that Sunningdale is the most cost effective location in the long-term for the Civil Service College. The rationale for retaining the pensions functions in Basingstoke was not particularly compelling.

Implementation agenda

The review recommends that the Cabinet Office should:

- implement the relocation proposals submitted to the review;
- explore the possibilities for further moves out of London, the scope for joining up and re-engineering some back-office activities with other central departments, and the potential for greater use of information and communications technology to assist remote working;
- test the business case for the location of the Civil Service College in Sunningdale Park in Berkshire and, thereafter, regularly review the case for staying there; and
- test the business case for retaining the civil service pensions functions in Basingstoke.

CHANCELLOR'S DEPARTMENTS

		Total number of staff	Number of staff in London and South East	per cent of staff in London and South East
Inland Revenue ¹	Current pattern	76,108	14,290	19
	Pattern if all proposals implemented	76,108	12,840	17
Customs and Excise	Current pattern	22,590	9,489	42
	Pattern if all proposals implemented	22,590	8,989	40
ONS	Current pattern	3,451	1,628	47
	Pattern if all proposals implemented	3,451	400	12
Treasury ²	Current pattern	1,152	1,152	100
	Pattern if all proposals implemented	1,152	1,134	98

History and context

The Chancellor of the Exchequer's departments include the Inland Revenue, Customs and Excise, HM Treasury, the Office of National Statistics (ONS), as well as National Savings & Investment and the Government Actuaries' Department (the last of which is considered along with smaller departments in a separate summary). Between them they employ about 100,000 staff, or about a fifth of the civil service.

There are a number of bodies linked to the Treasury (not all of them in ways that reflect the standard categorisations). The Office of Government Commerce is an Office of the Treasury and is covered in the summary of smaller departments. The Debt Management Office (85 posts in London) is an executive agency. The Royal Mint (entirely outside London) and the Bank of England (1400 posts in London) are classified as public corporations linked to Treasury and are not included in the figures above. Treasury also has a relationship with the Financial Services Authority, an independent regulator funded by levy (whose employees are not deemed public servants). The Valuation Office Agency (VOA) is an agency of the Inland Revenue responsible for valuing property and retains 1368 or 31 per cent of its staff in London.

The Chancellor's Departments describe their role as a key one at the heart of government. Treasury is the economics and finance ministry, ensuring a stable and growing economy and sound public finances, and leading the drive for greater efficiency in public services. Inland Revenue and Customs provide key frontline services for citizens and businesses, including administering tax and tax credits, tax collection and enforcement. ONS produces statistics essential in public policy making.

¹ Includes Valuation Office Agency.

² Includes Debt Management Office but excludes other bodies linked to Treasury.

Both the Revenue departments are widely dispersed, reflecting a nationally distributed service and a history of earlier reorganisations. There are some 22,000 posts in London and the South East. The Customs, with enforcement duties in ports and airports, has more of a concentration in the South East than the Revenue. ONS has 1000 posts in London and 2700 posts in Newport, Southport and Titchfield, Hampshire. The Treasury has around 1,100 posts located in central London. It has no public service delivery responsibilities.

The Revenue departments have been heavily involved in government efforts to reorganise delivery services for greater efficiency, exploiting technology. Treasury has a recent history of slimming down and devolving functions and responsibilities to other bodies (including operational control of interest rates to the Bank of England). A review of tax policy and administration has been undertaken by Gus O'Donnell, Permanent Secretary to the Treasury. It will have important implications for the Treasury and Revenue Departments, including the transfer of some policy functions to the Treasury and a greater joining up of delivery functions.

Proposals to the Independent Review of Public Sector Relocation

Inland Revenue propose to move up to 1450 posts up to the end of 2009. These will include: moving unsolicited telephone traffic to Contact Centres; moving PAYE processing work from the South East; moving operational Trusts work from London; and moving some posts from Business Stream Headquarters, Corporate Support and Operations Headquarters, as well as key operational and policy posts out of London. The Revenue see the opportunity for further dispersals after this tranche. According to their submission, this will leave very little Revenue operational activity in London which does not require access to customers. There is not yet a firm VOA proposal but the Agency is considering moving some routine enquiry work into call centres outside London and the South East.

Customs and Excise propose to relocate 500 posts from a number of business streams, including Support Service, Law Enforcement, and Business Services and Taxes, to existing sites throughout the UK.

The Office for National Statistics propose a radical restructuring of the department that would see the London head office of approximately 1,000 staff reduced to around 400 posts that have regular contact with ministers, and other key London stakeholders. All other activity would be transferred to Newport, Bristol or Cardiff, building on their existing presence. The department is keen to move out of Titchfield.

Treasury has been considering the opportunities for relocation as part of a rationalisation of support services. As a result an initial 18 posts will be moved outside London by 2005 and Treasury has said it will look for further opportunities. The Treasury also intends to embed its currently small regional presence through the secondment of staff to the Government Offices for the Regions network.

Assessment

The initial responses from the Chancellor's departments as a whole propose nearly 3900 job moves representing about 4% of total jobs. The Chancellor has now confirmed his intention to achieve 5000 job moves, which this review welcomes, while recognising that the detailed business planning in relation to these further posts still needs to be done.

Opportunities for rethinking the spatial pattern of these departments need to flow from the impact of the O'Donnell Review, which departments were not able to factor into their initial proposals because of the timing of that review. Such opportunities will include those that may arise from a greater joining up of activities across existing departmental boundaries.

The proposals from both Revenue departments continue a history of reorganisation on business efficiency and quality grounds. Even after implementing these proposals, both departments would continue to retain a significant presence in London and the South East and it will be particularly important to ensure that the remaining functions reflect genuine continuing need for a local delivery presence. The opportunities for dispersing VOA activity should be fully grasped.

The Office for National Statistics have made far reaching proposals and intend to begin implementation in 2007. The review believes there is a strong case for bringing this work forward. Treasury's intention to build on its initial proposal of 18 posts should focus on the opportunities that can be expected to arise from further back office rationalisation, the Gershon and O'Donnell reviews, and Treasury's concerns with regional outcomes. The opportunities relating to the Debt Management Office and Office of Government Commerce should be fully explored.

The existing proposals leave scope for more work to identify opportunities for dispersing functions from other bodies within the family of Chancellor's departments. Some of these like the VOA and National Savings are operational in character and it is not clear that they merit a London headquarters.

Implementation agenda

The Review recommends that the proposals put forward by this group of departments are implemented, in light of the Chancellor's commitment to an initial tranche of 5000 posts. This will require a focus on opportunities:

- to both join up and disperse delivery activities, taking account of the O'Donnell and Gershon reviews;
- to slim down headquarters functions in each department, building on a track record in this area and taking account of the conclusions of this report;
- to disperse functions of bodies linked to the Chancellor's departments: Debt Management Office, Office of Government Commerce, Valuation Office Agency, Bank of England, Financial Services Authority and National Savings and Investment, with a view to the scope for relocating London headquarters in some cases.

DEPARTMENT FOR CONSTITUTIONAL AFFAIRS

		Total number of staff	Number of staff in London and South East	per cent of staff in London and South East
DCA ¹	Current pattern	1,874	1,639	87
	Pattern if all proposals implemented	1,874	440	24
DCA group	Current pattern	15,200	7,650	50
	Pattern if all proposals implemented	15,625	6,450	42

History and context

The Department for Constitutional Affairs is a new department comprising the former Lord Chancellor's Department and parts of the former Scottish and Welsh Offices. The Department states that its responsibilities are to uphold justice, rights and democracy, to drive forward the reform and improvement of the justice system, and to reform and safeguard the constitution, so it serves the public effectively.

There are 15,200 staff in the Department's headquarters, including the Court Service, the Public Guardianship Office and other bodies such as the Legal Services Commission. Around 7,500 posts are based outside London and the South East. The majority of the posts in the Court Service, the Legal Services Commission, the Public Guardianship Office, and the Office of the Official Solicitor & Public Trustee which are located in London and the South East are described as frontline staff, dealing directly with customers and, as a result, are not considered suitable for relocation by the Department. Approximately 1,600 posts currently based in London and the South East are considered potential candidates for relocation.

Proposals to the Independent Review of Public Sector Relocation

The Department estimates that up to 1,200 of the 1,600 posts at the centre of the Department may have the potential, in the longer term, to be relocated outside London and the South East. The Department is considering location in the context of overall efficiency and process re-engineering, which includes current moves towards shared services, slimming the centre and rebalancing the ratio of central to frontline staff from one in five to one in 20. The Department is wary of proceeding with dispersals before these wider changes have clarified.

The Department does not envisage stand-alone relocations which it regards as too expensive and with too long a payback (it suggests 20 years or longer). Rather, it emphasises a gradualist approach that takes advantage of high natural wastage in London, and estates rationalisation to keep costs down.

The Department identifies three principles which will underpin its proposals:

- Newly established functions will be assumed to be sited outside London unless operational requirements or business cases demand otherwise. This may include parts of the new Judicial Appointments Commission and the new Tribunals Agency headquarters.

¹ Headcount figures – rather than full time equivalents. As at June 2003.

- Functions exercised by other bodies within the DCA family of organisations have the potential (subject to compelling business cases and estates rationalisation) to be located outside London and the South East. If this policy is pursued then up to 425 posts which would otherwise be in London may have the potential to be located elsewhere in the United Kingdom.
- In re-engineering its centre, the Department is to consider whether there may be scope for locating any policy development functions outside London and the South East.

Assessment

The Department's vision of a much reduced centre is to be welcomed, and the overall approach looks sound. It reflects a number of principles that have been highlighted in the main report, including the need to integrate locational considerations in wider business planning and reform programmes, a recognition of the possibilities for dispersing policy functions, and a presumption of non-London locations for new activities. The Department has a testing reform agenda and it is likely to throw up significant opportunities for rethinking the balance of activity between London and other parts of the country.

This approach in itself does not constitute a set of specific proposals for dispersal and there is a clear need for the department to develop firmer, timetabled propositions. As the main report notes, a gradualist approach to dispersal can have clear advantages but also be at risk of becoming bogged down. A desire to sort out reform fundamentals before turning to locational considerations risks missing the opportunities to use location change as a catalyst for reform in its own right. A presumption against London locations for new activities is at risk of becoming watered down if operational requirements are allowed to trump the principle in ways that have been subject to critique in this report. The Department's assumptions about the payback period for stand-alone relocations look unduly pessimistic.

Implementation agenda

The review:

- welcomes the Department's vision of a reduced centre with as few as 400 posts and its broad approach to dispersal, integrated with wider moves on efficiency;
- recommends that the Department now develops firm propositions for dispersal of functions in the context of the forthcoming spending review;
- recommends that the Department clarifies with some urgency how the presumption of an out of London location for new activities will be applied in relation to the Judicial Appointment Commission, the new Tribunal Agency headquarters and other planned bodies.

DEPARTMENT FOR CULTURE MEDIA AND SPORT

		Total number of staff	Number of staff in London and South East	per cent of staff in London and South East
DCMS	Current pattern	478	478	100
	Pattern if all proposals implemented	478	478	100
DCMS group	Current pattern	20,681	13,122	63
	Pattern if all proposals implemented	20,681	12,518	60

History and context

The Department for Culture, Media and Sport (DCMS) was established in 1992, and its aims are: to improve the quality of life for all through cultural and sporting activities, to support the pursuit of excellence, and to champion the tourism, creative and leisure industries.

DCMS has a very small London headquarters of 478 staff, focused on policy and strategy. It delivers through 60 sponsored bodies, including 40 NDPBs, many of which are headquartered in London, but have regional structures. These sponsored bodies include the national museums, such as the British Museum, smaller museums such as the Horniman Museum, the BBC and Channel Four¹, English Heritage, Royal Parks Agency, the Football Licensing Authority and VisitBritain. Some of these bodies have become more dispersed in recent years. For example, Arts Council England, Sport England, English Heritage and the National Heritage Memorial Fund.

DCMS has also outsourced its payroll, pensions, payments, accounting systems and services, IT services and facilities management, in an effort to further enhance efficiency.

Proposals to the Independent Review of Public Sector Relocation

DCMS have identified over 600 posts, for possible relocations from three sponsored bodies:

- UK Sport (UKS) – As part of a current review of UKS, to reflect the post devolution environment, DCMS are considering the possibility of relocation of UKS (or colocation with others). The Department has said that any proposals would need to reflect discussions with the devolved administrations in Scotland and Wales;
- A new organisation, which will be formed from the merger of the New Opportunities Fund and the Communities Fund, when a suitable legislative opportunity arises;
- the new Gambling Commission, which is to be established when a suitable legislative opportunity arises, and will take over and expand on the functions of the current Gaming Board. DCMS accept that the case for retaining the Commission's headquarters in London should be reviewed, but they argue that there may be a strong economic case for a continued London location, given that stakeholders remain in London.

¹ Which are not included in the numbers in the table.

DCMS did not offer proposals relating to any other of their sponsored bodies for a number of reasons. These included that the organisation: was too small to make relocation viable; was, by definition, based in London, such as Historic Royal Palaces; was a national cultural institution, and part of London's heritage – including most of the national museums; already had a significant regional structure, such as the Arts Council England, or needed to be based in London, as that was the location of most of its stakeholders.

DCMS pointed out that the London background of some NDPB chairman and chief executives can form a barrier to relocation, and suggested that it would be helpful if this issue could be considered in relation to the public appointments system.

DCMS said that they were unable to identify any opportunities within the department itself because it was already very small.

Assessment

DCMS' proposals are modest, in that the department does not propose to move more of its sponsored bodies. In the review's judgement, DCMS has not fully justified the continued location, in London, of those remaining activities. For example, opportunities may arise from the fact that some bodies already have regional structures. It is not clear that the current regional structure is optimal. DCMS' concern that the London background of the heads of some public bodies acts as a barrier to further dispersal is an important one.

DCMS have offered to consider opportunities for joining up back office services across their sponsored bodies, for example, with reference to the national museums, and the review encouraged the department to consider this further.

The review was keen for DCMS to develop thinking on the opportunities for greater dispersal of the BBC. The DCMS thought that the review of the BBC's Charter would provide an opportunity to reconsider the BBC's role in regional production and programming.

Implementation agenda

The review recommends that:

- implementation timetables are drawn up for the proposals submitted;
- DCMS should do further analysis of the scope for dispersal of functions from its sponsored bodies, rigorously testing the case for functions and their headquarters remaining in London. As part of this, DCMS should look at further opportunities for joining up and relocating back office functions across its sponsored bodies; and
- location should be a specific element of the BBC charter renewal negotiation.

MINISTRY OF DEFENCE

		Total number of staff	Number of staff in London and South East	per cent of staff in London and South East
MOD civilians ¹	Current pattern	89,750	25,240	28
	Pattern if all proposals implemented	89,577	24,219	28
MOD military ^{1,2}	Current pattern	203,680	57,600	28
	Pattern if all proposals implemented	203,502	54,383	27

History and context

The purpose of the Ministry of Defence (MOD) and the armed forces is to defend the United Kingdom, British Overseas Territories, their people and interests. Its role includes conflict prevention, crisis intervention and strengthening international security.

The MOD employs over 293,000 military and civilian personnel and is already dispersed with almost 72 per cent of both groups based outside London and the South East. This means that over a quarter of its staff is still located in those two regions. In London, there are almost 6,400 military and 7,300 civilian posts and in the South East there are 51,200 military and 18,000 civilian posts respectively – these include significant parts of the Royal Navy (its headquarters in Portsmouth), the Army (in Aldershot) and Royal Air Force (in RAF Brize Norton and RAF Benson). The London headquarters of approximately 5,120 posts include defence strategy and policy, finance, personnel, equipment capability, defence intelligence and exports promotion, as well as carrying out the military strategic command of operations.

In recent years, the Department has conducted significant relocations from the South East with the transfer of the Defence Procurement Executive to Bristol covering 7,200 posts. The Meteorological Office, a trading fund of the MOD, also moved from Bracknell to Exeter in 2003 involving around 1,000 posts.

Proposals to the Independent Review of Public Sector Relocation

The MOD has proposed four significant further relocations from London and the South East, which together with efficiencies total approximately 4,238 posts³. They include closure of the Army Technical Foundation College in Arborfield, Berkshire and, subject to affordability, moving posts from the Defence Medical Services Training Centre to Birmingham. The potential relocation of units, and subsequent closure of Woolwich Station in London, is also being considered and would result in a sizeable number of posts moving from the region. A number of posts from the Disposal Services Agency would move from London when the agency transfers to the ownership of the Defence Logistics Organisation in the South West. The rationalisation of the Defence Science and Technology Laboratory on to three sites will also result in a net reduction of posts in the South East.

¹ Staff numbers are correct as at July 2002.

² Military excludes the Gurkhas, Full Time Reserve personnel and home service battalions of the Royal Irish Rangers.

³ The exact split between military and civilian posts affected has yet to be determined.

The MOD is also looking at the scope for further rationalisation of Royal Air Force support units which may give rise to significant numbers of posts being relocated out of the South East and East as well as relocation of MOD Police headquarters and closure of certain singleton barracks.

Assessment

The MOD has a considerable track record in rationalisation and dispersal and its Core Sites Review and Defence Training Review have a direct bearing on relocation.

Proposals to relocate four activities out of London and the South East that represent around 5 per cent of the Department's posts in those regions are welcome. The dispersal of some 3,900 posts is a significant contribution to the Government's relocation agenda. The review recognises that the relocation of military establishments can be more complex than moving office based activities. However, when seen in context of an establishment of almost 293,000 posts with some 83,000 posts in London and the South East alone, the proposals appear modest and suggest that much more could be achieved.

The examples of the proposed relocations of the Defence Medical Education and Training Agency and the Army Technical Foundation College should pave the way for a more general presumption that training of recruits in future be done outside the relatively costly South East, consistent with operational needs.

The review acknowledges that there has been a major reorganisation of head office with staffing levels more than halving. The review also recognises the critical and unique role of the MOD's head office during a time of crisis. However, the rationale for retaining as many as 5,000 posts, including support functions, in London headquarters has not been particularly persuasive.

Implementation agenda

The review recommends that the MOD should:

- implement proposals, as a priority, submitted to this review;
- build on its past achievements and explore the scope for reducing further its presence in London and the South East;
- consider further the longer-term possibilities of creating 'super' multi unit garrisons in other parts of the United Kingdom;
- test the case for retaining many training facilities in South East locations on the basis that where possible these facilities should be elsewhere; and
- look again at the size of its London headquarters with a view to rationalising its presence further in central London in line with the principles in chapter 9.

OFFICE OF THE DEPUTY PRIME MINISTER

		Total number of staff	Number of staff in London and South East	per cent of staff in London and South East
ODPM ¹	Current pattern	2,431	2,355	97
	Pattern if all proposals implemented	2,431	2,118	87
ODPM group ²	Current pattern	8,986	4,410	49
	Pattern if all proposals implemented	8,986	4,173	46

History and context

The Office of the Deputy Prime Minister (ODPM) describes its aim as creating prosperous, inclusive and sustainable communities for the twenty-first century. It has responsibility for local government finance, performance and governance. The Department, which was set up in 2002, has a portfolio of responsibilities that include functions and structure inherited from the Cabinet Office and the former Department for Transport, Local Government and the Regions. It also has lead responsibility for taking forward the Government's regional and devolution agenda and shares with HM Treasury and Department of Trade and Industry the Government's targets for regional economic growth. ODPM sponsors nine non-departmental public bodies including the Audit Commission, Housing Corporation and English Partnerships.

The ODPM group is already dispersed throughout the English regions largely through its network of Government Offices for the Regions and its non-departmental public bodies with almost 51 per cent of posts located outside London and the South East. Within London, there are some 2,000 posts in departmental headquarters and a further 900 in sponsored bodies. The headquarters activities are largely made up of policy development functions covering fire, health and safety, local government and regional issues including sustainable communities. In addition, there are a number of support services located both in the London and the South East.

Proposals to the Independent Review of Public Sector Relocation

ODPM have identified almost 240 posts as potentially suitable for relocation to the Government Offices for the Regions or to existing ODPM locations. The Department cites a particularly heavy Parliamentary workload as an important reason for retaining most of its existing policy functions close to Ministers and Parliament in the capital. In its role as co-sponsor of this review, the Department has begun work on defining the irreducible elements of a modern Whitehall headquarters.

Taking account of the emerging principles from the current efficiency review, ODPM says it will work with the Treasury and the Cabinet Office to explore the potential for joint arrangements for a range of back-office activities and the scope for further work to be carried out in the Government

¹ ODPM refers to full time equivalent staff and secondees etc in ODPM central. The figures are correct as at 30 January 2004.

² ODPM group includes full time equivalent staff in ODPM central, its non-departmental public bodies and agencies.

Offices for the Regions rather than within London headquarters. ODPM will also continue to champion the Government Offices as an instrument for the regionalisation of other departments' functions.

The Department accepts the potential for moving the headquarters functions of the Audit Commission and Housing Corporation and has asked both organisations to carry out reviews into the need to have London headquarters and options for reducing their size. Both reviews will be completed by end March 2004.

Assessment

The Department's proposals to move some 240 posts out of central London represents an 11 per cent reduction in its core department in London. ODPM has focused on opportunities to move largely service delivery and back-office functions, and in the judgement of the review has left plenty of scope for exploring the long-term potential of moving significant elements of departmental headquarters and policy functions. As a result, ODPM's proposals, although consistent with its championing of the Government's decentralisation and regional agenda, appear modest.

The review acknowledges that ODPM is a relatively new department and has yet to develop a firm sense of the balance between its delivery functions and its role as a central department. Achieving clarity in this area will help the Department take its thinking forward on dispersal, as will its continuing work on defining essential headquarters functions. Given ODPM's lead for Government on regionalisation and devolution, the Department can be expected to develop a radical vision of the opportunities for dispersing activities, including those that arise as a consequence of the creation of elected regional assemblies in England.

The Department also has further to go in factoring in the efficiencies that could be gained through lower pay and accommodations costs outside London and the South East and the use of modern information and communications technology to overcome the locational difficulties of operating outside the capital.

Implementation agenda

The review recommends that ODPM, consistent with its responsibilities for regions and local government, and its championing of devolution, local government and regionalisation through the Government Offices network, should:

- implement, as a priority, its relocations proposals submitted to this review;
- ensure early decisions on the future locations of sponsored bodies headquarters in London;
- take a fundamental look at its own headquarters operations, exploring how they could function with a slimmed down presence in London; and
- make early progress with opportunities to re-engineer back office activities within the Department and jointly with other departments.

DEPARTMENT FOR ENVIRONMENT, FOOD AND RURAL AFFAIRS

		Total number of staff	Number of staff in London and South East	per cent of staff in London and South East
Defra ¹	Current pattern	7,802	4,079	52
	Pattern if all proposals implemented	7,393	3,406	46
Defra group	Current pattern	31,017	10,161	33
	Pattern if all proposals implemented	30,158	9,038	30

History and context

Defra was created in 2001 from a merger of the former Ministry of Agriculture, Fisheries and Food with functions from the Department of Environment, Transport and the Regions and from the Home Office. Defra's strategic priorities, all under the over-arching aim of promoting sustainable development, are: climate change and energy; sustainable consumption and production; natural resource protection; sustainable rural communities; and a sustainable farming and food sector (including animal health and welfare). Defra has a large delivery arm, including for example, the Rural Development Service, the Environment Agency (a large NDPB, with some 11,000 staff); English Nature; the Countryside Agency; and the Rural Payments Agency (RPA). These bodies all have regional or sub-regional structures.

With one third of the staff based in London and the South East, the Defra group retains a large London/SE presence compared to many other departments. This is partly explained by functions which are tied to a specific location such as Kew Gardens and Wakehurst Place (some 650 staff), or which involve direct delivery of services to the public or management of land and facilities, for example the Environment Agency, British Waterways Board, English Nature. Even excluding these functions from the overall picture, the wider Defra group still has some 7,200 staff, or 23 per cent, in London and the South East with no local service delivery or location-specific function, in particular, a large scientific function near Weybridge, and RPA Corporate Centre in Reading.

Defra recognise that the central core is large and are committed to addressing this. There are about 3,000 staff in London. A number of reviews address this, especially the Haskins' review, which recommends greater separation of policy and delivery functions and notes that the proposed new Land Management Agency should not require headquarters in London or the South East. The Department has been seeking to reduce its accommodation requirements through a strategy of flexible working, which, together with plans to relocate back-office services, should achieve a reduction of some 50 per cent in the London office estate by 2011.

The Department anticipates an increase in the devolution of delivery functions to the regional and local level. If elected regional assemblies emerge, commitments have already been made that responsibility for certain important strands of the Department's work, such as biodiversity, will be devolved to the new regional tier.

¹ All figures are headcount.

Proposals to the Independent Review of Public Sector Relocation

Defra propose to move 350 posts, all from back office support functions (some of these moves have already taken place). Further moves in consideration include the State Veterinary Service (30 posts) and Veterinary Medicines Directorate (140 posts), and the dispersal of some licensing and inspectorate functions (maximum 50 posts).

In addition to the 350 posts identified above, Defra are losing 409 posts through outsourcing IT functions, of which 323 are in London or the SE ; and will downsize 450 posts at the Rural Payments Agency in Reading. These changes are also reflected in the summary table above.

Assessment

Defra's approach demonstrates an awareness of the business benefits from decentralisation. Defra clearly see benefits in basing proposals around existing sites. But there are a wider range of possible locations available, and the Department should not overlook what other locations have to offer, eg sites near universities for science functions, or research, or the wider benefits of strategic 'clustering'.

Post implementation, the Department will still maintain a large London/SE presence. The review welcomes Defra's commitment to follow up across the Department the wider implications of Lord Haskins' recommendations about placing delivery functions closer to customers. The review has noted that work is in hand to take forward Lord Haskins' recommendations for delegation of functions to RDAs and GOs. Policy functions should not be excluded from consideration; Defra have already demonstrated that they can operate these successfully at a distance from London, although they point out their recent priority has been to integrate effectively the policy functions which came together in the new Department.

In addition, there may well be scope for dispersal arising from the ongoing programme of efficiency reforms, in particular through joining up with other departments or service providers, and using ICT.

Implementation agenda

The review recommends that Defra work up business cases for moving the 350 posts identified above with a view to early implementation. As the Department continues to develop proposals for further moves, and as work continues to secure efficiency gains, Defra should confirm:

- dispersal opportunities arising from further devolution of functions and the separation of policy and delivery work; in particular scope for defining the functions, and reducing the size of, the London headquarters operation;
- a non London/South East location for the headquarters of a new land management agency, should that go ahead;
- medium to long term potential for moving activities which are not local service delivery, or location specific, out of the South East.

DEPARTMENT FOR EDUCATION AND SKILLS

		Total number of staff ¹	Number of staff in London and South East	per cent of staff in London and South East
DfES	Current pattern	5,366	2,555	48
	Pattern if all proposals implemented	5,366	2,555	48
DfES group	Current pattern	16,656	4,932	30
	Pattern if all proposals implemented	16,656	4,142	25

History and context

DfES itself was created in 2001 after machinery of Government changes. The Department states that its aim is:

To help build a competitive economy and inclusive society by:

- *creating opportunities for everyone to develop their learning;*
- *releasing potential in people to make the most of themselves; and*
- *achieving excellence in standards of education and levels of skills.*

Much of the delivery of DfES' objectives is through organisations outside the review, such as schools and universities. These are not included in the figures above.

Further delivery is through DfES' wider family of bodies, such as the Learning and Skills Council, The Qualifications and Curriculum Authority, The Teacher Training Agency, National College for School Leadership, Investors in People, and the General Teaching Council for England. These are included in the figures in the table above.

DfES is considerably dispersed, with major offices in Sheffield, Runcorn and Darlington, as well as London. Looking at the full DfES group of bodies, 30 per cent of staff are in London and the South East. When considering DfES alone, over half of the staff are outside London and the South East – which is unusual for a core department. It has a London headquarters of 2,478 staff.

This dispersal reflects a history of relocation; for example, the establishment of the Manpower Services Commission in Sheffield in the 1970s, which is now part of DfES. More recent developments include 300 posts being created or transferred out of London over the last five years, and the establishment of the Learning and Skills Council in Coventry, and the National College for School Leadership in Nottingham.

DfES is currently engaged on a change programme to enable it to be the strategic leader in the education and skills sector, and deliver more through its partners. This will impact on the structure of the Department and will lead to an announcement in summer 2004 about a reduced headquarters size.

¹ All figures include staff in the Government Offices.

Proposals to the Independent Review of Public Sector Relocation

Until their change programme is completed, and its implications for the structure of DfES are apparent, DfES have chosen not to make immediate proposals for relocation. They are also concerned that service delivery pressures make relocation difficult at the present time, and that they are at capacity across the out-of-London estate.

However, with the recognition that any relocation could be phased to reduce such pressures, DfES have agreed to actively explore the possibilities of relocating around 800 staff, in the medium term, from the three bodies still with a significant presence in London; the Qualification and Curriculum Authority, The Teacher Training Agency, and Investors in People UK. Further details on these candidates are not yet available.

At present, DfES have made no proposals for the further dispersal of the core department.

Assessment

The review welcomes the Department's interest in London-based arm's length bodies. Despite their considerable current levels of dispersal, it is disappointing that DfES have chosen not to make firm proposals to the review at this time. Full analysis and business plans underpinning such proposals remain to be developed.

DfES' submission to this review has not shared the Department's thinking on the opportunities for dispersing core DfES staff which will arise from its change programme, including reform and slimming down of the London headquarters. This misses the opportunity to use locational change as an agent of reform. Delivery pressures are a factor to be considered in business planning, not a barrier to making plans, as discussed in the main report.

Implementation agenda

The review recommends that:

- DfES draw up a timetable for decisions on the location of those arm's length bodies which remain in London, and in particular The Teacher Training Agency and the Qualifications and Curriculum Authority;
- thinking on location should be an integral part of the wider modernisation and reform agenda, and considered as part of DfES' current change programme, rather than done afterwards; and
- DfES should look to disperse functions as part of its efforts to slim down the London headquarters.

FOREIGN AND COMMONWEALTH OFFICE

		Total number of staff ¹	Number of staff in London and South East	per cent of staff in London and South East
FCO	Current pattern	14,301	3,711	26
	Pattern if all proposals implemented	14,301	3,711 ²	26
FCO group	Current pattern	21,611	4,392	20
	Pattern if all proposals implemented	21,611	4,392	20

History and context

The Foreign and Commonwealth Office (FCO) describes its overall purpose as being to work for UK interests by; *promoting the security of the UK in a safer, more peaceful world, improving UK, and worldwide prosperity through effective economic and political governance globally, promoting a strong role for the UK in a Europe which is responsive to people's needs, and ensuring UK overseas territories are secure and well governed. It shares further responsibilities with the MOD, DFID, the Home Office, and DTI.*

FCO is also responsible for a number of sponsored bodies, including the British Council and British Trade International (a joint responsibility, with DTI).

As might be expected, the FCO are considerably dispersed around the globe. Consequently just 20 per cent of the FCO group staff are in London and the South East. The FCO has a London headquarters of 2,411 staff (a further 707 staff from FCO services are also based in London). The FCO state that this is necessary because of the location of many international stakeholders in London and the desirability of maintaining a single base of policy staff in the interests of those returning from postings overseas.

The FCO's other UK base is in Hanslope Park, near Milton Keynes, where they have nearly 800 staff. The FCO have been based here since 1946, and it is their centre for support services.

The Department are currently working on efficiency improvements, including joining up with other government departments, especially DFID; outsourcing; and rationalisation of their London estate.

Proposals to the Independent Review of Public Sector Relocation

The FCO originally proposed the dispersal of 156 posts, from central London, to Hanslope Park. After further discussion, it has identified a further 300 posts which could move. These posts are mainly in functions such as records and historical management, IT, finance and various other support functions.

¹ Includes staff working, and recruited, overseas. It does not include British Trade International staff, as they were covered in DTI's submission. Numbers do not include staff from the BBC World Service – a public corporation.

² The 456 staff which FCO intend to relocate have not been removed from the London/SE figures, as these will still be in the SE.

The FCO states that, over time, it intends to widen the role of Hanslope Park, from its current status as a back office site. Additionally, it has identified some areas of work where joining up across government might be possible, which could result in opportunities to disperse. Details are, as yet, unavailable.

FCO believes that the choice of Hanslope Park, rather than a location outside the South East, is the best option. Because it is a bespoke site, the department states that accommodation costs would be cheaper than those outside the South East, and there would be little profit from sale of the site, as it has to return to agricultural land should the FCO vacate it.

FCO made no proposals in relation to its sponsored bodies, which include the British Council.

Assessment

Building on their considerable current level of dispersal, and given their relatively small overall numbers in the UK, these proposals are a positive start, but the review does not find especially persuasive the arguments for keeping UK-based policy posts together in London.

The review questioned the choice of Hanslope Park as an alternative site, given its location in the South East, but FCO's rationale for this decision seems sound. However, the department will need to ensure that Milton Keynes remains the best value option over time, given the risk that planned housing and population growth push up costs. Given the closeness of Milton Keynes to London, there is certainly scope for more radical thinking about the balance of activity between the two sites.

FCO demonstrates consideration of ICT, and emergency planning, as further drivers for relocation.

It is notable that FCO has identified no opportunities in relation to its sponsored bodies.

Implementation agenda

The Review recommends that:

- the FCO works up its proposals further, along with a timetable for implementation;
- the Department considers further the balance between Hanslope Park, and London including policy posts, to reduce the size of their London headquarters; and
- dispersal opportunities should be identified for FCO's sponsored bodies.

DEPARTMENT OF HEALTH

		Total number of staff ¹	Number of staff in London and South East	per cent of staff in London and South East
DH	Current pattern	3,634	1,952	54
	Pattern if all proposals implemented	2,245	1,159	52
DH group	Current pattern	25,684	9,789	38
	Pattern if all proposals implemented	24,984	7,886	32

History and context

The Department of Health (DH) states that: *The aim of the Department is to improve the health and well being of people in England. It is responsible for leading and driving forward change in the NHS and social care, as well as improving standards of public health. It sets the national standards on waiting and emergency care and helps to promote healthier lifestyles and living.*

Over the past ten years the Department of Health has implemented a policy of devolution. In the early 1990s the then NHS Management Executive was established in Leeds, resulting in the transfer of about 30 per cent of total staffing (including a significant number of senior level posts). More recently there has been a shift from the central department to the NHS Strategic Health Authorities and colocation of public health units in Government Offices for the Regions. There has also been an increase of some 200 posts in arm's length bodies in Leeds over the last three years. The majority of the department's 1,952 London and South East contingent are headquarters staff located in Elephant and Castle.

Proposals to the Independent Review of Public Sector Relocation

Department of Health have proposed the relocation of 1,030 posts from their arm's length bodies by 2008. These include proposals to relocate 150 posts from the NHS University (NHSU)² to a location outside London and the South East within a partner university – and the Dental Practice Board (DPB) with 280 relocatable posts. The Department has also proposed the relocation of a further 600 posts from other arm's length bodies, mostly to Leeds.

The department has a change programme in place and is cutting its headquarters by 38 per cent, or 1,400 staff, to become focused on strategic leadership rather than detailed management. About half these posts will be abolished and the other half will be transferred, mainly to the Department's arm's length bodies. The reduction in London and the South East posts is estimated to be in the region of 790. A further 80 core posts are likely to be relocated away from London within two years of this initial reduction. The policy base in Leeds will be maintained and the primary location will remain in London.

¹ Figures exclude operational organisations ie NHS, Local Authority staff.

² NHSU – these will be new posts, located outside London/SE.

Assessment

Building on its long-standing history of decentralising functions, including the major headquarters in Leeds, the Department has produced positive proposals.

Relocation opportunities identified fall mainly in the arm's length bodies rather than in the core Department. The Department's proposals to this review do not change the balance of the core activity between London and Leeds. This will need to be revisited as the change programme goes forward.

The review welcomes the Department's commitment to a more slimmed down centre and the systematic approach it has shown to exploring the scope for dispersing arm's length functions currently in the South. The Department needs to ensure that all opportunities for dispersing arm's length operations are explored, bearing in mind the London locations of recent bodies like the Commission for Healthcare, Audit and Inspection and the National Patient Safety Agency.

Implementation agenda

The review recommends that:

- the Department takes forward the implementation of the 1,030 proposed relocations and develops a timetable for action, including for the proposed move of 80 core departmental staff.
- the Department should continue to re-assess the balance of activity between London and Leeds, including policy.
- The Department should ensure that it is comprehensive in identifying dispersal opportunities within arm's length bodies.

HOME OFFICE

		Total number of staff	Number of staff in London and South East	per cent of staff in London and South East
HO	Current pattern	15,640	12,946	83
	Pattern if all proposals implemented	15,440	10,446	68
HO group	Current pattern	69,549	29,344	42
	Pattern if all proposals implemented	69,349	26,844	39

History and context

The Home Office is the department responsible for internal affairs in England and Wales. Its aims are: *to build a safe, just and tolerant society, to enhance opportunities for all, and to ensure that the protection and security of the public are maintained and enhanced.*

The Department employs large numbers of staff in the direct provision of services (eg immigration, prisons) as well as working through others to deliver (eg the independent police service). The Department's structure is currently undergoing significant changes. In January 2004 the Home Secretary announced the establishment of the National Offender Management Service (NOMS) to provide an end-to-end management service for all offenders. This new body will be set up from June 2004 and will bring together the prison and probation services. The Home Office is also committed to reducing the size of its headquarters with announcements expected in the summer of 2004.

The nature of the Home Office's work necessitates the adoption of a dispersed structure and this is reflected in the fact that almost 60 per cent of the department's activity is based outside London and the South East. Of those staff based in London and the South East many are involved in front line service delivery based in either prisons or working as immigration officers at airports and ports and so are not candidates for relocation.

The 12,946 staff working directly for the Home Office in London and the South East include 5,000 who provide immigration and nationality services from a headquarters site in Croydon, approximately 4,000 based in the Home Office's London headquarters, 1,500 based at the Prison Service headquarters, 850 in the Forensic Science Service providing scientific support to the police and expert evidence to the courts, and 600 split between the London branch and the national headquarters of the Passport Agency.

Proposals to the Independent Review of Public Sector Relocation

The Home Office have identified scope to relocate a total of 2,300 posts from London and the South East and would remove at least a further 200 posts through efficiency improvements.

The largest component of the Home Office proposals is the relocation of Prison Service and National Probation Directorate headquarters when these merge to form NOMS. The Home Office believe this merger will enable 1,800 posts to be transferred from London and the South East and at least a further 200 to be removed entirely.

In addition to these proposals the Home Office have identified a number of smaller units within the Home Office headquarters that are suitable for relocation. These units total approximately 510 posts.

Finally, the Home Office have identified the possibility of transferring the London laboratory of the Forensic Science Service from its Central London site to another part of the South East. The service needs to have a presence within London and the South East but the department consider that a prime site may not be appropriate.

Assessment

The review notes the Home Office's analysis that has currently identified 510 relocation opportunities within their own headquarters and expects further opportunities for relocation to be identified, as part of plans to slim down headquarters.

The review shares the Home Office view that the merged Prison Service headquarters and National Probation Directorate is a strong candidate for relocation and would encourage the Department to confirm the commitment to a non London/South East location.

The Home Office have recognised that while the Forensic Science Service must retain a presence in London and the South East, this does not necessarily require them to be based in the heart of London. The review believes that similar thinking should be applied to the London Passport Office.

The review would particularly welcome detailed consideration being given to the Immigration and Nationality Department (IND) offices in Croydon. While some analysis has been carried out that recognises that there may be relocation and efficiency opportunities in the future, substantial further thinking is required.

Implementation agenda

The review recommends:

- early confirmation of the Department's intention to headquarter the new National Offender Management Service out of London and the South East;
- further work on the dispersal of headquarters functions as part of current efforts to slim these down;
- further work on IND in Croydon with a view to identifying more cost-effective locations for those functions which are not necessarily tied to Croydon;
- further work on the dispersal opportunities associated with the Forensic Science Service and London Passport Office.

DEPARTMENT FOR INTERNATIONAL DEVELOPMENT

		Total number of staff ¹	Number of staff in London and South East	per cent of staff in London and South East
DFID	Current pattern	2,934	1,026	35
	Pattern if all proposals implemented	2,934	941	32
DFID group	Current pattern	2,934	1,026	35
	Pattern if all proposals implemented	2,934	941	32

History and context

The Department for International Development (DFID) was created in 1997 from the Overseas Development Administration. DFID states that its overall aim is: *to reduce global poverty and promote sustainable development, in particular through achieving the Millennium Development Goals.*

As a department with an international focus, DFID has less than half of its staff based in London and the South East, with the majority of the rest based in posts overseas, nearer their customers and stakeholders. It has a London headquarters of 1,026 staff.

DFID currently operates a split site in the UK, with head offices in London, and over 500 staff in East Kilbride. This office was established during the post Hardman round of dispersals in 1981, when part of the then Overseas Development Administration was relocated. Given its split site headquarters, and extensive network of posts overseas, DFID has successfully developed a culture of effective working at a distance. The extensive use of ICT, such as videoconferencing, and frequent management visits to East Kilbride, are an example to other departments of how split site offices can be made to work.

DFID expects to be able to make considerable efficiency gains over the next few years, through its IT change programme, and moves towards joining up across Government, particularly with the Foreign and Commonwealth Office (FCO).

Proposals to the Independent Review of Public Sector Relocation

DFID proposes the dispersal of 85 posts from London to its office in East Kilbride. A first phase of 45 posts, which will be dispersed by the end of 2004, includes posts from DFID's UN and Commonwealth Department, and some professional and support staff from policy divisions. Decisions on the second phase, to be completed by 2005, have been brought forward in response to this review, and will also include key policy posts, many of them senior.

In the longer term DFID says that it hopes to develop East Kilbride further, as a policy hub, to ensure career opportunities there, and the sustainability of the site.

¹ This includes staff working, and recruited, overseas and is correct as at September 2003.

DFID is currently looking at further dispersal opportunities with a focus on international opportunities, and is working with the FCO on opportunities to join up services, improving efficiency. DFID notes it has evolved from an aid giving organisation, to a development policy organisation, over the last few years, requiring greater coordination across government at the centre, and thus a stronger headquarters in London than once might have been the case.

DFID state that their proposals will allow the rationalisation of their estate in London, and consequent accommodation savings.

Assessment

Although small in number, these proposals represent a further shift in DFID's strategy to develop its East Kilbride operation as a self-sustaining policy hub, rather than a support office. Therefore they strike the review as positive, and potentially exemplary, in line with views expressed in this report.

The review notes that DFID has been able to articulate how its proposals fit with its broader modernisation and reform agenda. The review also welcomes the initial thinking about joining up operations with other departments. The department could go further in articulating what might form the irreducible core of DFID in London, and the dispersal opportunities which might arise from a more radical re-examination of the balance of activity between London and East Kilbride (and overseas).

Implementation agenda

The review recommends that DFID:

- implement the dispersal of their 85 posts as soon as possible;
- continue to address the balance between the two UK offices, to realise all opportunities to develop East Kilbride as a policy hub; and
- develop further thinking on joining up support services across government, especially with FCO.

DEPARTMENT OF TRADE AND INDUSTRY

		Total number of staff ¹	Number of staff in London and South East	per cent of staff in London and South East
DTI	Current pattern	4,351	3,973	91
	Pattern if all proposals implemented	3,901	2,923	75
DTI group	Current pattern	27,911	8,962	32
	Pattern if all proposals implemented	27,461	7,912	29

History and context

The role of the Department of Trade and Industry (DTI) is to drive up United Kingdom productivity and competitiveness by working closely with business, consumers and employees. Its vision is 'prosperity for all through successful business, excellent science and innovation and fair markets'.

The DTI group includes a large number of non-departmental public bodies and agencies of which most notably are the Regional Development Agencies, the Small Business Service, the Insolvency Service, the Advisory, Conciliation and Arbitration Service (ACAS), and the Office of Communications (OfCOM). The Department (through the Office of Science and Technology) also sponsors six research councils that are major funders of science research. The Medical Research Council (MRC) is the only one based in London, with 240 headquarters posts.

Approximately a third of the DTI group's posts are located in London and the South East. Within this London number, almost half are to be found in departmental headquarters which accounts for approximately 4,000 posts, the Small Business Service and UK Trade International. The remainder are in the Insolvency Service, Employment Tribunals Service and Companies House.

DTI points out that it has, for many years, pursued a policy of devolving work to its agencies and non-departmental public bodies as well as locating activities away from London and the South East. The Regional Development Agencies are a key tool in the Government's regional economic policies. It has already outsourced support services such as IT and accounting functions, and relocated much of its human resources functions. The Department is currently in the process of relocating its finance function to Billingham and building up its human resources centre of excellence in Cardiff by relocating posts there.

The Department has located a number of functions close to the industries they relate to, most notably the oil and gas industry in Aberdeen and the automotive industry in Birmingham.

¹ Staff numbers correct as at 30 June 2003.

Proposals to the Independent Review of Public Sector Relocation

The Department is currently implementing its pay and workforce strategy that will deliver savings of 20 per cent in the DTI headquarters staffing in central London. 450 posts will go through natural wastage or through a limited voluntary retirement scheme. Subject to appropriate funding, another 600 posts will be relocated to the regions from the one Department, Small Business Service, Insolvency Service and UK Trade International.

The Department is currently considering the scope for achieving efficiencies and improving services to customers through re-engineering of its key processes. As part of that project, DTI is exploring the scope for relocating beyond the 600 posts so far identified. This is likely to build on the work already underway to relocate some of the Department's routine processing work and to consider the scope for moving some of its service delivery out of London. The Department is also considering the possibility of joining up with other departments in the provision of back office and other services but work on this is at an early stage.

The Office of Science and Technology is to review the size and location of the London headquarters of the MRC.

Assessment

The DTI group as a whole is considerably dispersed, but the core department will remain very large and very London-centric even after its proposals are implemented. The review considers that the Department could go much further in assessing the scope for dispersal in the context of continued downward pressure on the size of its headquarters and with a hard look at the need for arm's length operations to be based in London.

The review welcomes the Department's approach to the possibility of joining up and re-engineering back office activities with other departments.

As a co-sponsor of the Regional Development Agencies, co-owner of the Government's target for improving growth in the regions and the department with lead responsibility in government for promoting business and enterprise, the DTI should be able to address further the contribution that dispersal could play to strengthening certain industrial and research clusters, building on the existing precedent of locating support for the automotive sector in Birmingham.

The review has not been persuaded of the case for the continued London location of the MRC and notes the London location of the recently created OfCOM.

Implementation agenda

The review recommends that DTI should:

- implement its relocation proposals submitted to the review;
- look for further opportunities for slimming down headquarters with additional dispersal as part of that;
- examine the scope for relocating arm's length operations such as ACAS, the Small Business Service and MRC;
- look at potential synergies that might exist with other departments and explore opportunities for re-engineering activities and joining up with them in the regions; and
- look for more colocation opportunities to strengthen industry and research clusters.

DEPARTMENT FOR TRANSPORT

		Total number of staff	Number of staff in London and South East	per cent of staff in London and South East
DfT ¹	Current pattern	1,651	1,449	88
	Pattern if all proposals implemented	1,651	1,377	83
DfT group ¹	Current pattern	17,093	4,680	27
	Pattern if all proposals implemented	17,093	4,608	26

History and context

The Department for Transport (DfT) is responsible for the delivery of the Government's transport strategy and came into being in 2002 to provide a stronger focus on the delivery of that strategy. The new department inherited many of the transport responsibilities of the former Department for Transport, Local Government and the Regions. DfT has a number of executive agencies and non-departmental public bodies including, notably, the Driver and Vehicle Licensing Agency, the Highways Agency and the Strategic Rail Authority.

The DfT group is considerably dispersed through its sponsored bodies across the United Kingdom with almost 73 per cent of its posts outside London and the South East. A large concentration of posts is found in its London headquarters with just over 1,500 posts, followed by the Strategic Rail Authority with over 630 posts. The remaining posts in London largely involve local delivery of the group's services.

The Maritime and Coastguard Agency with 330 posts moved to Southampton (South East region) in 1993. The 320 posts in the Highways Agency headquarters have largely been moved from London to Birmingham, Bristol, Leeds and Manchester, and this migration is scheduled to be completed in 2004, although a small headquarters function remains in the capital. Approximately 10 per cent of headquarters staff are also based in Hastings.

Apart from departmental headquarters functions in London and the headquarters of Maritime and Coastguard Agency in Southampton, the headquarters functions of the Department's agencies are located in major centres outside London and the South East.

Proposals to the Independent Review of Public Sector Relocation

DfT identified between 30 and 40 posts in the Rail Investigation Branch that could move out of London but have yet to specify where these posts might migrate. It also identified possible relocation candidates including the headquarters function of the Traffic Area Network covering 16 posts that could go to Bristol and a further 21 posts dealing with bus subsidies that could move from London.

¹ Numbers are correct as at October 2003.

DfT is concerned about relocating headquarters staff at a time when transport policy is going through a period of radical change, and cites similar reasons for not proposing a relocation of the Strategic Rail Authority. The bulk of the Maritime and Coastguard Agency moved to Southampton in the last ten years and the Department argues that it would be unnecessarily disruptive to relocate the organisation again.

Assessment

The Department has inherited a good track record on relocating activities away from London evidenced by the recent decentralisation of some 300 Highways Agency posts to other cities outside London, leaving around only 12 per cent of non-local delivery posts in central London.

Although the Department is already dispersed through its agencies, its proposals to move only about 70 posts out of London and the South East strike the review as disappointing. The review recognises that transport policy is in a state of flux, but believes that the Department can nevertheless go further in exploring the locational dimension to further change and reform.

The review believes that the Department can do more to examine the scope for dispersing policy and other headquarters functions, including exploring the potential for modern information and communications technology to allow engagement with stakeholders from non-London locations, and better reflecting the Department's own commitment to greater regionalisation.

In discussions with the review, it was clear that DfT was well seized of the opportunities for dispersal arising from re-engineering back-office activities and joining up with other departments. These should be reflected in the Department's further work.

The Maritime and Coastguard Agency does not strike the review as a likely relocation candidate.

Implementation agenda

The review recommends that DfT should:

- take forward, as a priority, its relocation proposals submitted to the review;
- re-examine its rationale for retaining so much of its policy work in its London headquarters, in line with the recommendations in chapter 9, and in particular explore the scope for further regionalisation;
- take the opportunity of the current review of railways to look at the scope for relocating railways functions away from London and the South East, including those of the Strategic Rail Authority, as part of any rationalisation process; and
- explore potential synergies with other departments to see whether there are opportunities for re-engineering and joining up activities outside the capital.

DEPARTMENT FOR WORK AND PENSIONS

		Total number of staff	Number of staff in London and South East	per cent of staff in London and South East
DWP	Current pattern	18,498	2,726	15
	Pattern if all proposals implemented ¹	18,498	2,391	13
DWP group	Current pattern	129,446	23,108	18
	Pattern if all proposals implemented ¹	111,446	14,256	13

History and context

The Department for Work and Pensions (DWP) was established in June 2001, from the Department of Social Security and parts of the Department for Education and Employment. The department is responsible for getting people into work, supporting those out of work, reducing poverty and supporting older people and disabled people.

DWP provides services through a number of arm's length operations, many of which are executive agencies, including Jobcentre Plus, The Pensions Service, The Child Support Agency, the Disability and Carers Service, the Appeals service, and the Health and Safety Executive (HSE).

The DWP group is considerably dispersed across the UK, with large bases in Leeds, Sheffield and Newcastle. Much of this dispersal reflects DWP's role as a major delivery department. DWP has been involved in re-engineering business processes through ICT, to improve efficiency, and shares some accommodation and services with other government departments. DWP has a London headquarters of around 2,500 staff.

The Health and Safety Executive has nearly 4,000 staff, with a headquarters in Bootle, which was established in the 1980s when over 1,000 jobs were relocated there.

Proposals to the Independent Review of Public Sector Relocation

DWP has firm plans to disperse 1,836 posts from its delivery services in London and the South East, which predate this review. It is also set to reduce overall department, and sponsored body staff numbers by 18,000 over the next two to three years, 5,000 of these from London and the South East.

Beyond this, DWP proposes to disperse a further 2,221 posts from London and the South East. These posts come from the Child Support Agency, Disability Benefit Directorate, Jobcentre Plus, and DWP personnel and other back office functions. These jobs are mainly delivery focused, where face-to-face contact is not required, or are in back office and support functions.

Posts would be moving mainly to locations where DWP already has a presence around the UK.

¹ Figures reflect 18,000 posts likely to go due to efficiency gains, 5,000 of which are from London and the South East. The table also includes the 1,836 posts definitely relocating.

The HSE has proposed the relocation of 130 posts from a total of 700 in its London office, reflecting its role in rail safety. These are likely to move to Merseyside and Aberdeen, and possibly to Birmingham, depending on the wider Government review of rail regulation.

Assessment

Building on its current considerable dispersal, DWP submitted a positive response to the review. The Department appears to have taken a thorough approach to business planning, covering pay and accommodation savings, and recruitment and retention benefits. Further development of thinking around what forms the irreducible core of a London headquarters is required, to ensure all opportunities are captured, as is more thinking about the implications of local pay flexibility.

DWP suggests that its proposals are rooted in its longer term modernisation and reform plans, but the read-across has not been particularly strongly brought out in its proposals.

Implementation agenda

The review recommends that:

- DWP finalise the business cases for its proposals, and draws up firm implementation timetables as soon as possible. The review recognises that DWP is undergoing a wider change programme. The Department should ensure that its dispersal proposals are consistent with and supportive of wider reform;
- DWP should also consider further what functions form the irreducible core headquarters of the Department, and any further dispersal opportunities in light of this; and
- HSE finalise the business case for their dispersal proposals, and draw up firm implementation timetables as soon as possible.

SMALLER DEPARTMENTS

	Total number of staff in UK	Number of staff in London and South East	per cent of staff in London and South East
Charity Commission	589	167	28
Central Office of information	368	368	100
Crown Prosecution Service	7,499	2,421	32
Crown Estate	400	373	93
Export Credit Guarantee Department	410	350	85
Food Standards Agency	2,336	597	26
Government Actuaries Department	98	98	100
Crown Prosecution Service Inspectorate	42	31	74
Land Registry	8,129	1,291	16
Legal Services Secretariat	35	35	100
National Archive	554	554	100
Office of Communications	848	722	85
Office of Gas and Electricity Markets	303	303	100
Office for Standards in Education	2,825	1,080	38
Office of Fair Trading	609	609	100
Office of Water Services	285	14	5
Office of Government Commerce	588	180	31
Ordnance Survey	1,638	1,317	80
Office of the Rail Regulator	127	127	100
Serious Fraud Office	229	229	100
Treasury Solicitors Office	720	710	99
Current pattern	28,632	11,576	40
Pattern if all relocation and efficiency proposals are implemented	28,632	11,546	40

History and context

The departments included in this summary are predominantly small organisations with under 1,000 members of staff but with some notably larger bodies too. They are involved in a range of activities but can broadly be divided into four groups:

- regulators such as the Office of Fair Trading and the Office of the Rail Regulator;
- inspectorates including OfSTED and the Crown Prosecution Service Inspectorate;
- specialist services like the Government Actuaries Department and Treasury Solicitors Office that are focused on service delivery for key customers in government and elsewhere; and
- larger services like the Crown Prosecution Service and Land Registry.

Proposals to the Independent Review of Public Sector Relocation

The proposals submitted by these departments identified only 30 candidates for relocation. Notwithstanding the significant overall degree of existing dispersal, this response is disappointing.

These departments identified a number of barriers to the greater dispersal of their activities. A number of these issues were common to many of the responses:

- upfront costs of relocation would significantly outweigh the savings that the transfer of a relatively small number of people could generate;
- relocation of the whole department is impossible as key customers are based in London and the South East;
- creating a second headquarters and splitting the department between two sites would not prove economic or sustainable due to the small size of the organisation;

Assessment

The review believes that these responses have failed to grasp the opportunity for cost savings and improved service delivery that relocation offers. They focus on issues that make change difficult rather than looking for opportunities to think radically about their future size and shape. These arguments have some force in relation to the smaller of these departments but, as noted, there are some large bodies too.

The argument that a body needs to be wholly based in London because ministers and key customers are based there is overly simple, as set out in the main report.

The main report also develops a case for locating regulators and inspectorates out of London as a means of enhancing their authority and independence.

Where departments have genuine problems of small scale, dispersal opportunities may be best pursued as part of efforts to share common services with larger departments.

Implementation agenda

- departments should revisit their proposals and work to identify further relocation opportunities by thinking creatively about the opportunity to relocate back office functions, joining up with other departments, and by challenging assumptions about functions that need to be in London.
- the Government should consider how to apply a presumption of non-London headquarters for regulators and inspectorates in this group.

B

Responses to the consultation

Introduction

B.1 The review launched a public consultation on 19 June 2003, asking for evidence and views on:

- the likely economic impact on the regions of moving public sector activity away from London and the South East;
- how government might look and perform if policy development and service delivery were further decentralised;
- what might be learnt from previous and current relocations of activity, both in the private and public sector; and
- how businesses take advantage of advances in technology and electronic communications to allow people to be based away from the operation centre.

B.2 More than 200 responses were received, including submissions from local authorities, academics, Regional Development Agencies, Government Offices for the Regions, think tanks and interested individuals. Table B.1 shows the breakdown. Departments themselves submitted information based on their previous experience. The review also held meetings with a variety of stakeholders. The full list of respondents to the consultation can be found towards the end of this annex.

B.3 Six responses addressed the consultation questions in considerable substance and were published in January 2004 on the Treasury website¹ (the Core Cities, the Royal Institute of Chartered Surveyors, the Centre for Urban and Regional Development Studies submission on behalf of the English Regional Development Agencies, the British Chamber of Commerce, the Local Government Association and the Town and Country Planning Association).

B.4 Many of the private sector responses were from companies offering commercial relocation services, or from property owners and developers proposing specific sites. These submissions are not discussed in this annex but have been passed to the Office for Government Commerce to allow those developing relocation plans to access this material.

¹ www.hm-treasury.gov.uk/lyonsreview

Table B.1: Respondents to the consultation

Category	Number of Respondents
Private Sector Companies	30
Individuals	33
Regional Development Agencies	8
Regional Assemblies	4
Scotland, Wales	4
Members of Parliament	12
Local Authorities/local bodies	105
Other Interested Parties	11
Total	207

B.5 The responses broadly followed the following themes, which are discussed in greater detail below.

- local and regional impact of relocations;
- human impact of relocation;
- impact on how government might perform;
- lessons learned from previous relocations; and
- impact of information and communication technologies.

Economic impact of relocation

B.6 The review asked for views and supporting evidence on the likely economic impact of public sector activity. The consultation stimulated a great many local ‘bids’.

B.7 A number of submissions from regional or local bodies modelled the potential impact of relocation. Submissions from Yorkshire and Humber, Tees Valley, the North West and the West Midlands, among others, contained estimates of the number of local jobs that would be created by transferring a given number of public sector posts to those areas and also included estimates of the gross value added by that transferred activity. These corresponded to economic multipliers ranging from 1.15 to 2.2.

B.8 The review cannot vouch for the methodology used in these assessments but they are consistent with *Experian Business Strategies’* broad findings in Chapter 4.

B.9 Submissions from the Core Cities and the Centre for Urban and Regional Development Studies highlighted the role that relocation could play in narrowing regional gaps in growth rates and strengthening economies, especially if clusters of more senior work are created in cities which can then act as motors of growth for the regions.

B.10 Submissions from Nottingham said that the relocations of the Inland Revenue and Capital One to Nottingham sparked a £200 million pound public and private sector regeneration of the city's canalside corridor. A cluster of financial services businesses had grown around the Inland Revenue and the move of 3,000 jobs across these two organisations indirectly created an additional 2,000 jobs. Other submissions noted the regenerative and other impacts on Leeds, Sheffield, Exeter and Edinburgh.

B.11 Responses from some local authorities and regional organisations were also keen to ensure that departments fully consider the potential risks in transferring activity. These impacts are discussed in detail in chapters 3 and 4, and reflect *Experian's* detailed analysis for the review. Concerns put forward were:

- increased demand may increase property and labour prices;
- growth in the non-market sector in a region may crowd out the private sector and have negative impacts on enterprise and initiative in the local economy; and
- the increased dependence of a regional economy on government makes it more vulnerable to reductions in government expenditure.

B.12 Some respondents highlighted the fact that some regions that perform poorly in economic terms already have a high proportion of civil servants. This makes it difficult to sustain the argument that adding to public service employment will strengthen an under-performing regional economy. Sustainable, long-term improvements in regional development will depend upon private sector growth, and the relocation of public sector jobs, particularly lower-skilled ones, will do little to generate spin-off enterprise.

B.13 A number of respondents discussed the impact that relocation might have on London and the South East. Some submissions were positive about the potential to alleviate overheating and congestion. Others pointed out that London and the South East are not homogenous: there are pockets of deprivation, and relocating public sector activity away from these areas might have a disproportionately damaging effect on local economies. This is addressed in chapter 4.

B.14 Others proposed that there is the potential for activity to relocate out of overheated areas of London and the South East but remain within the region and still attain many of the cost savings associated with the best relocations.

Human impact of relocation

B.15 Submissions from interested parties in London and the South East and those from unions representing public sector workers emphasised the human issues around relocation, and in particular the importance of care in relation to the impact on staff from ethnic minorities and poorer communities.

B.16 Respondents observed that realising the potential cost savings of relocation might prove more difficult now than in earlier drives in the 1960's and 1970's. The wider range of living arrangements and a greater diversity of family circumstances, specifically the rise of dual income households, may reduce the willingness of staff to relocate. This might potentially lead to the loss of key staff or compel the public sector to pay higher relocation packages to ensure that important staff are retained.

B.17 The Joseph Rowntree Foundation submitted a paper on the effects on families of job relocations in which they outline seven 'good practice in relocation' points. These are reproduced in chapter 7.

Impact on how government might look and perform

B.18 The review was interested to hear views and supporting evidence on whether further decentralisation might change the performance of government, improving service delivery and policy making, while bringing government closer to the citizen and countering the perceptions of a London-dominated approach. While some submissions mentioned these issues briefly, there were two substantive responses on these issues: one from the Centre for Urban and Regional Development studies and another from the Core Cities.

B.19 The CURDS response pointed to the potential for building a stronger regional civil service based around existing centres of expertise in the more devolved agencies that have head offices in all regions. This would offer a counterweight to centralisation in London. They highlighted the evolution of the civil service in Wales as an example of ‘a shift from a purely administrative civil service to one that has a stronger policy focus, is better co-ordinated and has better local knowledge’.

B.20 Core Cities’ submission similarly advocates the decentralisation of policy and ‘intelligent delivery’ work to help counter the ‘pull’ of London and retain and enhance knowledge and capacity in the regions, thus driving up performance. They support further decentralisation and devolution and point to the success of those European cities where a considerable measure of power and resources have been devolved from the centre.

B.21 The consultation exercise and meetings held by the review elicited views on the type of policy that could be undertaken better or at least equally as well away from London (see chapter 9). There was surprisingly little evidence put forward to show that national policy development would actually be better, or service delivery improved, if it were further decentralised, though some suggested that London-based policy makers are biased by their environment.

B.22 There was also a view that government would perform better if located with or closer to the expertise it needs. In the specialist, professional areas of government work the technical competence of staff needs to keep pace with best practice and be at the leading edge of research and knowledge. There were clear advantages of relocation to sites in close proximity to recognised centres of excellence.

Lessons learnt from previous relocations

B.23 A number of respondents to the review set out benefits their organisations had reaped from relocation, and preconditions for success or good practice. Organisations had generally benefited from the following:

- few problems recruiting a high-calibre workforce;
- low staff turnover rates;
- better working conditions;
- good quality of life;
- significant reductions in commuting time;
- better use of broadband for email, video-conferencing and web-cam links;
- reduction in property and operational costs; and
- good transport links.

B.24 Pre-conditions for success, and general points of good practice were:

- coordination and collaboration between key agencies;
- early development of a framework for major recruitment and training;
- staff at all levels kept informed of progress;
- reconnaissance visits and provision of good local information for staff;
- engagement with the regional community, starting at the planning process;
- a staggered approach to the transfer of work;
- help with accommodation for employees;
- all expenditure planned at the outset;
- reasonable time for planning and implementation allowed; and
- inward investment support not ended with relocation but on-going support for any further expansion or development plans.

B.25 Civil service relocations have worked better when a department has concentrated a significant number of staff in a single location or when a location already has a reputation for excellence in a particular profession or technical field.

B.26 One private sector company moved 12,000 people over 6 years. Their use of postcode analysis to minimise the cost and human impact of relocation is highlighted in chapter 7.

B.27 Even when relocations to an area are welcomed, it is important to anticipate and manage the following repercussions: strain on the transport infrastructure; increased pressure on an already highly charged property market and the affordability index; and the capacity of schools and other public services.

B.28 Some of the challenges that organisations have had to overcome include: negative perception of the area; staff opposition; and difficulty in persuading stakeholders to transfer meetings from London.

Impact of information and communication technology

B.29 Submissions to the consultation highlighted the use that private sector companies are making of information and communications technologies (ICT) to allow their staff to work from home or remote from the fixed office location, as well as increasing the flexible working options for staff. In addition, businesses have been able to take advantage of technology to re-engineer in the following ways:

- reducing the number of customer-facing local offices, with the remaining, large customer handling centres integrating customer service with increased sales activities;
- creating specialist back offices, known as shared service centres, where functions such as accountancy and legal activities are brought together at a single site to serve a national, pan-European or even global market;
- creating ‘multi-media contact centres’ to handle customers interactions by email or over the internet, as well as by phone.

B.30 Businesses that relocated have highlighted the role of modern communications in ensuring efficient operations are maintained. ICT is creating new types of markets in many sectors and making it easier for all organisations to relocate, manage and restructure their business. For example:

- the use of email is now so great as a means of inter-organisational communication that staff can communicate as easily from a distance of 200 miles as from the same buildings;
- business and other organisations are making more use of the internet to create all-encompassing internal information systems – which are breaking down the barriers of geographical dispersion.

B.31 One insurance company said that it moved to the West Midlands, with a retained workforce, and achieved an overnight 20 per cent increase in productivity through new IT and telecom systems and a 40 per cent improvement within 6 months.

B.32 IBM implemented flexible working for its workforce in the UK and elsewhere. About 14 per cent of their 20,000-plus UK staff are classified as flexible workers, generally based at an IBM office and about 0.5 per cent are classified as ‘home’ workers. For IBM flexible working was an opportunity to improve its land and property resource use. They have been able to consolidate their office space around a ‘hotdesking’ environment, saving over 1,000,000 square feet of office space in the UK. Reduced office space offers environmental as well as economic benefits in terms of reduced heating and lighting and also contributes to reduced traffic congestion by allowing travel to and from the office to take place off-peak. Flexible working has helped with recruitment and retention.

B.33 BT has considerable experience both in-house and working with customers in using ICT for ‘flexible working’ – this includes remote and home-based working. Over the past 10 years they say they have:

- closed significant parts of their property estate and reduced costs, saving £59.5million per annum;
- increased staff morale by 55 per cent;
- reduced absenteeism by 75 per cent;
- increased productivity by 31 per cent.

Consultation respondents and others who offered views

Organisations

Bevan Foundation
British Chamber of Commerce
Conservative Party
Core Cities
Council of Civil Services Unions
County Surveyor’s Society
Centre for Urban and Regional Development Studies
First Division Association
Joseph Rowntree Foundation
Local Government Association
London First

OFWAT
 Royal Institute of Chartered Surveyors
 South West Economy Centre
 Town and Country Planning Association

Regional Development Agencies

East Midlands Development Agency
 East Midlands Assembly
 Government Office for the East Midlands
 East of England Development Agency
 East of England Regional Assembly
 Government Office for the East of England
 English Regional Development Agencies (CURDS)
 Greater London Authority
 North West Development Agency
 South East England Development Agency
 South West RDA and South West RA
 Yorkshire Forward

Regional Assemblies

North East Assembly and
 Association of North East Councils
 North West Regional Assembly
 South East England Regional Assembly
 West Midlands Regional Assembly

Devolved Administrations

Scotland Office
 Scottish Development International
 Scottish Executive
 Welsh Assembly Government

Local Authorities/Local Bodies

Ashford Borough Council	Durham County Council
Councils of the Thames Valley Region	East Lancashire Partnership
Birmingham City Council	East Sussex County Council
Blackburn with Darwen Borough Council	Ellesmere Port and
Borough of Crewe and Nantwich	Neston Borough Council
Bournemouth Borough Council	Exeter City Council
Bradford City Centre, Urban Regeneration Company	Fife Council and Scottish Enterprise Fife
Calderdale Council	Finance Cornwall
Caradon District Council	Forest Heath District Council
Carrick District Council	Gloucestershire First
Catalyst Corby URC	Greater Norwich Area
Cheshire County Council	Greater Peterborough Investment Agency
City of Bradford Metropolitan District Council	Hartlepool Partnership
City of Stoke on Trent	Hasting Borough Council
Copeland Borough Council	Herefordshire Council
Cornwall County Council	Hull City Council/
County Durham Development Company	East Riding of Yorkshire Council
Croydon Council	Invest Northern Ireland
Cumbria	Keele University
Cumbria Inward Investment Agency	Kent County Council
Darlington Partnership	Lancashire West Partnership
Derby City Council	Leeds City Council
Derby City Scape Ltd	Leicester City Council
Devon and Cornwall Business Council	Leicester Regeneration Company
Devon County Council	Leicester Shire Promotions Ltd
District of Easington	Lincolnshire County Council
Doncaster Metropolitan Borough Council	Lincolnshire Enterprise
Dundee City Council	Liverpool City Council

Locate in Kent
Luton Borough Council
Manchester City Council
Manchester Investment
Development Agency Service
Metropolitan Borough of Wirral
Mid Yorkshire Chamber of Commerce
Middlesbrough Council
Norfolk County Council
North Ayrshire Council
North Norfolk District Council
North Wales Economic Forum
North West Universities Association
Northampton Borough Council
Northamptonshire County Council
Nottingham City Council
Nottinghamshire County Council
Oxfordshire County Council
Peterborough City Council
Poole Borough Council
Rotherham Metropolitan
Borough Council
Scotland Office
Sedgemoor District Council
Sefton Metropolitan Borough Council
Shrewsbury and Atcham Borough Council
Shropshire County Council
Somerset Strategic Partnership
Southend-on-Sea Borough Council
Stafford Borough Council
Suffolk Chief Executive's Group,
Ipswich Borough Council
Sunderland Area Regeneration Company
Surrey Heath Borough Council
Sussex Enterprise
Swindon Borough Council and the New
Swindon Company
Taunton Chamber of Commerce
Taunton Deane Borough Council
Taunton Town Centre Partnership
Tees Valley Development Company
Telford Development Agency
Thames Gateway South Essex Partnership
Tees Valley Development Company
The Fylde Coast Initiative
The Mersey Partnership
The South West Peninsula
Torbay Council
Torbay Development Agency
Wandsworth Council
Wear Valley District Council
Wellingborough Borough Council
West Dorset District Council
West Lancashire District Council
West Lothian Council
Wigan MBC
Wiltshire County Council
Wolverhampton City Council
Worcestershire County Council
Worthing Borough Council
York-England.com

Individuals

Rob Atkins
 Graham Bankes
 Councillor S T Benson (Thurrock)
 Christine Booth
 Richard Conlin (French Policy)
 Stephen Connolly
 Nigel Cook
 James Currie
 DTI Employee – Confidential
 J.N Edmondson
 Margaret and Ian Edmondson
 F.G Fallows
 Eric Galvin
 John Gulvin
 Beverly Heath
 Peter Houghton
 Ninad Kadam
 Paddy May
 David Miller
 Natalie Newman
 Bernard Ogden
 Kelvin Palmer
 Sid Platt
 Ben Prince
 Leslie A Rowe
 Colin Rowley
 Tim Scrace
 Ian D Settle
 Daniel Stapleton
 Adrian Stradling
 Brian Wilcox
 Philip M Zanker

Private Sector Companies

Association of Relocation Agents
 Aukett Ltd
 BT
 Canary Wharf Group Plc
 Capita
 Cendant Mobility
 Chesterton International plc
 Commercial Relocation Consultants Ltd
 CORPRA – Real Estate and Corporate Vision
 Dalepride
 DBM plc
 DJH Associates
 Experian Business Strategies
 Express Park Development Company Ltd
 Fujitsu Services
 G W Interiors
 IBM
 Insignia Richard Ellis Ltd
 Instant Offices Ltd
 Land Securities plc
 Marsh UK
 Mercer Human Resource Consulting
 MUA Property Services Ltd
 Nightingale Estates Ltd
 Profile Locations
 Roxylight Group Services Ltd
 Sun Microsystems Ltd
 The Internet Corporation
 Topland group of companies
 Underwoods
 Vertex Customer Management
 WSP Development

C Cost modelling

Introduction

C.1 The review has developed a financial model to illustrate key areas of expenditure and saving. This model underpins the cost savings estimates made in chapter 3.

C.2 The model is not based directly on the submissions made by departments but instead is underpinned by data on property costs from the Office of Government Commerce, *King Sturge* and other experts across government. Precise information on staffing costs is less readily available and is an area where there is scope for departments to improve the quality of the data. Information was provided by the Treasury, Office of the Deputy Prime Minister and Cabinet Office. These datasets have been shaped to reflect a series of assumptions made by the review about the management of the relocation process that impact on the timing of relocation, the degree of coordination that can be applied across the public sector to manage down both property and human costs, and other factors.

C.3 The figures generated by this model are not intended to be a definitive guide to the costs and benefits of relocation. They merely provide a fact based illustration. Changes to the underlying assumptions can have a significant impact on the outcomes. To reflect the range of possible outcomes this annex contrasts two scenarios. The main scenario is quite cautious in its assumptions while the second factors in the potential additional savings that a centrally coordinated approach to property management and staffing issues might deliver.

Table C.1: Summary of relocation costs and benefits¹

	Base case	Increased central coordination
	£ millions	£ millions
Upfront costs over first 7 years	942	650
Total savings by year 7	213	555
Total savings by year 15	2,300	2,700
Payback period	6 years	5 years

Staffing costs

C.4 The model assumes that 20,000 posts in London and the South East are suitable for relocation and that the associated moves are fully implemented over seven years.

¹ All costs and savings in this table are discounted at 3.5 per cent.

C.5 Redesigning business processes is a key benefit of relocation and allows material efficiency improvements to be made. This issue is discussed further in chapter 3. The model has assumed that, due to efficiency improvements, the relocated activities can be carried out by just 18,000 people. This estimate may be cautious as some submissions to the review suggest that up to 25 per cent of the posts to be moved from London and the South East may be removed through process improvements.

C.6 The model has assumed that, of the 2,000 posts that are not required for the relocated activity, 750 are subject to redundancy and 1,250 are either reassigned to other parts of the public sector or leave the service through normal staff attrition.

C.7 Of the 18,000 posts that are still required the model has assumed that, over 7 years, 6,300 choose to relocate and receive relocation packages as an incentive; 2,975 find new posts elsewhere in London and the South East; 2,975 posts are vacated through normal staff churn; and 5,750 staff are made redundant and as a result have to be compensated. 11,700 posts will be recruited locally.

C.8 The model assumes that the average cost of redundancy including a compensation payment is £65,000. This is based on the methodology outlined in the PSCPS Early Severance Booklet and additional work done by the Treasury.

C.9 The model uses an average relocation package of £32,000 which is based on information provided by Cabinet Office, and has allowed for recruitment costs of £5,000 per post for each job that has to be filled locally.

C.10 Therefore, the staff costs associated with moving 20,000 posts from London and the South East are estimated at a little over £680 million.

C.11 The variant of the model that assumes a central body is able to play a role in coordinating relocations reduces these upfront costs to approximately £430 million. This reduction is achieved by assuming that fewer redundancies are required and that a greater number of post holders can be found alternative public sector employment.

Accommodation costs

C.12 The second major set of costs associated with relocation are those connected to vacating properties in London and the South East and acquiring premises elsewhere. Close working with the Office of Government Commerce and *King Sturge* has allowed the model to reflect an overview of the public sector estate, the London property market and rental costs across the United Kingdom.

C.13 The model has assumed that a typical public sector worker in London has 15 square metres of space and so, as a result of relocation, 300,000 square metres of London property can be vacated.

C.14 Of this 300,000 square metres, it is assumed that 10 per cent could be vacated by taking advantage of lease break points, and that 5 per cent of the space is in properties with freeholds owned by departments and can therefore be vacated at any time. A further 25 per cent could be vacated cost effectively through minimal coordination in line with current practice. The final 60 per cent may only be exited through the payment of a reverse premium or lease exit penalty.

C.15 Reverse premiums for central London are significantly higher than those for outer London and this has been reflected by the model using two different amounts. Central London is subject to penalties of £2,000 per square metre while the model uses an outer London rate of £1,000 per square metre. The model assumes that 85 per cent of the space incurring exit penalties is subject to the higher rate.

C.16 In addition to reverse premiums, any leasehold space that is vacated is likely to incur dilapidation costs which are typically £300 per square metre. Furthermore the space that organisations acquire outside London and the South East will require fitting out and the transfer of furniture, systems and records from the existing office.

C.17 Removal costs and fitting out are typically £500 per square metre although the review has assumed that less space per person, only 13.5 square metres, will be required in offices outside London due to improvements in flexible working arrangements and building utilisation and that 30 per cent of those that do relocate will move in to existing parts of departments' regional network rather than occupy new space.

C.18 In total, over seven years the review believes that the property costs associated with relocation might be in the order of £360 million.

C.19 Central coordination of the London estate, improved management of existing regional capacity and greater oversight of the procurement of new property could significantly reduce these costs. The revised model assumes that only 50 per cent of the London estate is subject to reverse premiums and that only 75 per cent of this would be payable at the higher, inner London rate. In addition, a greater proportion of relocated staff could be based in existing parts of the public sector estate and manage with a smaller amount of space per person. To reflect this the model assumes that relocated staff require only 12 square metres each and 40 per cent of those that relocate will be based in existing buildings.

C.20 These changes to the model reduce the property costs associated with relocation to slightly under £300 million.

Accommodation savings

C.21 The savings delivered by relocation are the result of lower property costs outside London and the South East, savings in pay and, thirdly, efficiency savings on both accommodation and personnel through improved ways of working. These benefits are discussed and exemplified in chapter 3 of this report.

C.22 Reduced accommodation costs are a key driver. The Office of Government Commerce have provided estimates of the total occupation costs of property occupied by the public sector in London. Within central London, they estimate that rent is approximately £450 per square metre, rates £175 per square metre and service charges and running costs of a further £125 per square metre. This gives a total occupation cost for inner London of £750 per square metre. Similar information was provided for a second tier of property in outer London and this has a total occupation cost of £550 per square metre.

C.23 *King Sturge* provided the review with total occupation costs for cities outside London and the South East. An average of the total occupation cost for prime city centre office space in Birmingham, Cardiff, Manchester, Edinburgh, Glasgow and Bristol was used as the comparator for this part of the model. The average total occupation cost this generated was £377 per square metre.

C.24 As stated earlier in this annex, the model assumes that each post holder in London occupies 15 square metres and that this will be reduced to 13.5 square metres in the new location. Furthermore, the model takes a view that only 70 per cent of the posts that relocate will be based in new buildings with the remainder collocating in department's existing regional accommodation.

C.25 If the relocations were spaced evenly over seven years then savings of almost £643 million would have been achieved by the end of this period. From year 8 onwards, ongoing savings of £160 million per annum would be realised.

C.26 The revised version of the model alters the underlying assumptions so that each relocated post occupies 12 square metres and maintains that only 60 per cent of the posts that relocate are based in new accommodation. The effect of these changes is to raise the savings over the first seven years to £705 million and increase the ongoing savings by approximately £10 million per year.

C.27 The model does not attempt to quantify the additional income that departments may generate through letting or selling properties they own in London that will be vacated due to relocation.

Staffing savings

C.28 The relocation model has estimated the pay savings that transferring posts from London to other parts of the United Kingdom might generate.

C.29 The average premium paid in the public sector to those based in London when compared to others carrying out the same type of activity elsewhere in the United Kingdom is 27.5 per cent.²

C.30 The model does not attempt to quantify the effect of introducing local or regional pay but simply tries to capture the effect of the current pay differential between public sector jobs in London and the rest of the country. If local or regional pay flexibility were introduced the staffing savings might increase from the 27.5 per cent modelled here to over 35 per cent.

C.31 The model assumes that for those staff recruited locally, the full 27.5 per cent saving can be realised immediately. Staff that transfer from London and the South East are assumed to be gradually realigned with the local rate over a period of 4 years. Both variants of the model make the same assumptions on pay savings.

C.32 Over the first seven years of relocation the savings from transferring posts from London pay rates to typical rates elsewhere in the United Kingdom are estimated to be £418 million.

C.33 The final element of cost savings considered by this model is generated by improving the operational efficiency of relocated activities such that they are able to carry out work previously done by 20,000 people with just 18,000. The 2,000 posts released through this process are assumed to be split between civil service grades B to F and have a grade and pay mix in line with the civil service average.

C.34 **The savings generated over the first seven years of relocation might be as much as £200 million pounds with ongoing annual savings from that point onwards of £50 million per annum.**

² The London pay premium used in the cost modelling is based on the Labour Force Survey and, as a result, differs slightly from the figure presented in chapter 3 which is based on analysis of the New Earnings Survey.

D

Evidence from other countries

Introduction

D.1 The review was keen to learn from international experience of relocation and decentralisation, and trawled for information from other countries. The search was not exhaustive, and the information presented here is based on a limited search of literature, and on material submitted by embassies. It does, however, provide an overview of activity and experience in other countries and points out differences and similarities of approach which are instructive.

D.2 A number of themes emerged from the evidence submitted, which resonate strongly with those identified in the main report. In particular the drivers for relocation were broadly consistent across the international scene, although the emphasis varied, and Japan was notable for pursuing resilience as a key aim. Across the board countries saw the dispersal of government functions as yielding cost reductions; a better balance between the centre and regions; and a lever to introduce modernisation and improved efficiency.

D.3 Reductions in overheads were a key benefit, with some countries seeing improved recruitment and retention and improved productivity as important benefits. Relocation was also seen as the opportunity to secure improved efficiency on the back of re-engineering, new working practices and modernisation. These were seen as delivering not just savings in operating costs but more choice for the customer (Norway), and better delivery of services. The example from Canada, while a large regional rather than national project, well illustrates the scope for radical restructuring of service delivery to achieve both cost savings and a much more seamless and convenient service for customers.

D.4 Relocation was also seen as contributing to a better balance between the region and the centre. This was generally expressed in terms of a better economic balance, with the aim being to provide jobs and stimulate growth in areas where economic performance lagged. There was also some explicit recognition of the need to address perceptions of remoteness and policy-making dominated by the capital (Japan, Scotland, France). Germany is an interesting example of a highly devolved country, which is still decentralising at the regional level (Länder) to promote economic growth within the Land. Some saw merit in building regional clusters, perhaps by reinforcing existing presences (Ireland, France). France was keen on developing strong centres of excellence, especially based around science and research.

D.5 A few submissions mentioned the need to tackle congestion and overheating in the capital (eg Tokyo, Dublin), and the French have a longstanding policy of strict control of development in the historic centre of Paris. The Japanese approach is particularly interesting in that it seeks to enhance the ability of government to continue its business following a natural disaster (earthquake, typhoon). This is a driver which has parallels with the need to improve resilience to the terrorist threat in the post 9/11 world (chapter 8).

D.6 The examples gathered covered a wide range of work types to be moved. Ireland is considering moving some government headquarters from Dublin, with ministers retaining a small secretariat in the capital. Norway is proposing to move regulators from Oslo, to give them greater independence from government.

D.7 Some pitfalls were identified. The example from Norway suggests that seeking to secure business continuity by extending moves over a three year period added to costs and the risk that key staff would leave for other jobs. The German experience was that free-standing organisations and agencies relocated more successfully than advisory and strategic functions, which could feel cut off from the centre. This was also the experience of agencies in Berlin, when the seat of government was in Bonn, and with Bonn when the seat of government moved to Berlin following unification.

D.8 The material illustrates a range of approaches. The French (starting from a highly centralised baseline) have a central committee which considers functions for dispersal to regions. The approach in Ireland is notable for the strong lead from Ministers, and clear commitment from the top, despite some controversy over the proposals. The plans are also based around a National Spatial Strategy, which provides a framework for relocation decisions. A locational framework is discussed in chapter 8 of the main report. The approach in Scotland is based around an agreed national policy, and a system of location reviews triggered by specific events. Germany's devolved system appears to build on the principle of decentralising functions to the most local tier possible.

Scotland

D.9 The Scottish Parliament have recently updated their relocation policy¹. The principal objectives are:

- improved efficiency and effectiveness;
- targeting areas of social and economic need; and
- decentralisation.

D.10 Relocation reviews are triggered by:

- the creation of new organisations or units;
- reorganisation or restructuring of departments or agencies; or
- a significant property break, such as a renewal of a lease.

D.11 In the first two scenarios there is a policy presumption against an Edinburgh location but none in the latter, but even under that scenario bodies must consider locations outside Edinburgh. Issues to be considered include socio-economic factors, sustainable transport links/accessibility, costs, operational effectiveness and the position of staff concerned.

D.12 Around 1300 posts have already been located, or are planned to be located out of Edinburgh. Around a further 1,800 posts will be subject to relocation reviews in 2004. Bodies are brought into the programme on an annual basis subject to the triggers above. The next announcement of bodies entering the programme is due at the end of 2004. Examples to date include the relocation of the Enterprise and Lifelong Learning Department to Glasgow; the setting up of a Food Standards Agency presence in Aberdeen; and the relocation of the Scottish Public Pensions Agency (SPPA) to Galashiels in the Scottish Borders.

¹ See <http://www.scottish.parliament.uk/finance/or/fi04-0102.htm>

D.13 The main benefits have been improved staff retention, better qualified staff, and economic benefits in areas of relative socio-economic need (eg Galashiels). Highlands and Islands Enterprise have relocated finance and central service activity from Inverness to Benbecula, proving the feasibility of the decentralisation of activity to remote areas and encouraging employers, who may previously have been reluctant to locate activity in these areas, to revisit their thinking.

D.14 The main risk is perceived to be disruption of delivery. This is less of an issue where new functions are being created. Where an existing function is being moved, retention of experience can be an issue. However the operation of the policy has been pragmatic, displaying flexibility about the timing and phasing of moves and making additional short-term financial provision to maintain transitional standards of delivery through a variety of measures, for example dual running.

Ireland¹

D.15 In his Budget statement in December 2003, Finance Minister Charlie McCreevy announced plans to push forward with Ireland's decentralisation programme which contributes to a core objective of the country's National Development Plan 'the achievement of balanced regional development.' The proposal is that over 10,000 posts, across all government departments, will be transferred away from Dublin city centre. Eight departments will transfer to the regions. Ministers will move with their department but maintain a small secretariat and office space based in Dublin, for Dáil and city business.

D.16 Functions planned for transfer include headquarters functions, advisory agencies, training agencies and regulatory bodies (Central Fisheries Board). The criteria for the selection of departments included consideration of career opportunities, the impact on the region, and the location of the department's customer base. Locations were considered against the country's National Spatial Strategy, which promotes regional development, together with the desirability of clustering related activity within a region, and building on a department's existing presence. For example, it is proposed to move the headquarters function of the Department of Agriculture and Food to Portlaoise where it already has a regional office.

D.17 Benefits are expected from: reduced staff turnover and better productivity; reduced demand on Dublin's infrastructure; job opportunities for people outside Dublin; new working practices; and increased private sector involvement. This will come initially through 'property swaps' which aim to ensure that property acquired in regions is matched as closely as possible by disposal of property in Dublin. But the review notes that these proposals have also generated controversy.

France²

D.18 Although France is highly centralised, with limited regional autonomy, a policy of dispersal has been in place for almost 50 years in both public and private sectors. A key aim has been to keep large developments away from Paris, especially the Ile de France. In the last 12 years some 30,000 public sector jobs have been moved, including posts in Foreign Affairs, Social Affairs and Work, Economy, Finances and Industry, Defence, Transport, Housing and Tourism.

¹ The review is grateful to the Department of Finance, Dublin, for this material.

² The review is grateful to the British Embassy Paris for their contribution to this material, which also draws on the CITEP website: www.citep.gouv.fr/

D.19 There is a well established mechanism for pursuing dispersal. The Committee for the Territorial Establishment of Public Employment (CITEP) was set up in 1998 to concentrate on services provided by the non-competing public sector. CITEP ensures the balanced distribution of employment in each region by taking into account the needs of the users of public services, efficiency concerns of the state, and modernisation and performance of public management.

D.20 Decisions on locations are influenced by impact on the local plan; emergence or reinforcement of centres of excellence; and stimulation of the local economy. The major block to staff mobility is spouse employment. Preconditions for success are: the development of an interdepartmental pool of employment; willingness to make the move a collective project, with direction and good local support; good preparation, allowing plenty of time; and a positive response from the area receiving the relocated activity.

D.21 The benefits are judged to be:

- generally positive in terms of quality of the service;
- particularly positive when involving the establishment of a scientific, technical or research function; eg Toulouse;
- raising the image of the receiving area;
- reinforcing the role of the regional capital (or the European ambition of cities);
- emergence or reinforcement of a centre of excellence;
- stimulation of the local economy, particularly direct or induced effects of employment; and
- positive effects in the modernising of the transferred functions in performance, management and governance.

Regionalisation of transport began with the Transport Express Regional (TER) after a joint agreement between the State-run SNCF and the Regions in the 1990's. Responsibility fell to seven volunteer regions (Alsace, Centre, Nord-Pas de Calais, Pays de la Loire, Provence-Alpes, Cote-D'Azur, Rhone-Alpes, Limousin). The result has been a marked improvement in transport services: the modernisation of stations, new trains and timetables more suited to people's needs. Regional lines that had suffered under national management and were threatened with closure were overhauled and kept open. The Regions spent €2 billion of their budget on transport in 2003: more than 16 per cent of their budget, a rise of 8 per cent from 2002.

Germany

D.22 As a federal state Germany is highly decentralised with the Länder (the regional tier) having their own constitution, parliament and executive. Länder in turn are decentralised, and pursue relocation of government departments away from regional capitals with a view to job creation and economic growth.

D.23 The success of this system appears mixed. Freestanding agencies, such as security and intelligence agencies or watchdogs, work well away from the centre and enjoy more independence. Those with a more strategic focus and direct advisory role to the Government, find themselves removed from the action.

Berlin and Bonn

The British Embassy in Berlin reported that prior to unification the federal Government placed some of its agencies in Berlin to guarantee jobs, and maintain a presence there. Following unification in the late 1990s the Government moved to Berlin, but decided to split most ministries into a Bonn and a Berlin branch, in order to maintain a presence in Bonn. This has proved cumbersome, and there is a clear trend for the top layers of hierarchy to move to Berlin.

Norway

D.24 In May 2003 the Norwegian Government announced plans to move eight state regulatory agencies from Oslo³.

D.25 These moves are part of a wider reorganisation and modernisation of the public sector, to create more effective public administration and offer greater freedom of choice for users of services. They are also intended to free up regulatory bodies from political control, and help maintain distance from the institutions they regulate. The Government claims this will also lead to more balanced regional development, and help build knowledge and capacity in the regions. The moves are also intended to improve retention rates.

D.26 These relocations would happen over a 3 year period, to ensure business continuity, and to give staff time to relocate or find new jobs. This does however push up costs in the transitional period involving a split headquarters arrangement, as shadow teams would be needed. There is some concern about loss of key staff. There has also been concern about costs, efficiency impacts and the effect on employment in Oslo, and the proposal has met with opposition from the trade unions.

Japan⁴

D.27 The Japanese Government are currently considering bids from candidate sites for a new capital city outside Tokyo. This will be a new political and administrative centre, leaving Tokyo as the economic and cultural centre of Japan.

D.28 The relocation of capital functions in Japan is seen as a method for “ushering in a new age” – they see it as a driver of deregulation, decentralisation and wider reform of Government. The project is also intended to reduce congestion and overheating problems in Tokyo. Another driver is the need to reduce the impact of natural disasters (especially earthquakes) on the Government’s capacity to conduct its business. This will be achieved by dispersing the risk, to a site where there is little possibility of an earthquake or large scale disaster at the same time as in Tokyo. Vacated land in Tokyo will also be used to build earthquake shelters.

D.29 The case for relocation also maintains that a new city would counter the dominance of Tokyo in policy making and decision making. The scope for relocation will be strictly defined to avoid creating too great a concentration in the new city. The infrastructure investment, which will include major transport links, is intended to have economic benefits for the whole country.

³ This material comes from european industrial relations observatory on-line www.eiro.eurofound.eu.int

⁴ The material comes from a Report by the Council for Relocation of the Diet and Other Organizations www.mlit.go.jp/kokudokeikaku/daishu/English/er_001.html

D.30 Functions and bodies considered for relocation include the House of Councillors, House of Representatives, central functions of national government and the supreme court. Relocation of the Cabinet, central policymaking functions and crisis management functions are also being considered for transfer.

Canada: British Columbia⁵

D.31 Although a regional tier of government rather than national government, British Columbia is large enough to offer useful comparisons at national level, and provides an example of how ministries can join up to improve service delivery.

D.32 The Service Delivery Project Project was set up to develop coordinated and flexible approaches to service delivery in heartland communities. Cross-ministry teams have been set up, and improvements have been delivered through:

- colocation and sharing office space, supplies, equipment, resources;
- greater use of electronic business tools;
- cross-boundary integration of select internal functions to enable coordinated delivery across more than one ministry eg investigation work, enforcement functions; and
- common integrated front counters for public access to government.

D.33 The project has so far achieved 21 colocations; three one-stop shops; a toolkit of guidance on sharing facilities; partnerships with the wider public sector (health authorities, school districts etc); promotion of local leadership and client centred delivery and the promotion of a culture of cross-ministry collaboration to solve delivery issues.

⁵ The review is grateful to the Ministry of Management Services, British Columbia, for this material.

E

A brief history of relocation

E.1 There is a long history to the relocation of government work from London and the South East, reflecting the persistent differential in operating costs between London and other parts of the UK, and also the long-standing wider government aim of supporting lagging regional economies. Early relocations were centrally led drives, which were only partly successful in achieving the moves identified. In the 1980s the emphasis switched to the identification of freestanding departmental business units, which were separated out and became Next Steps Agencies, sometimes relocating away from the ‘parent’ department.

E.2 The first well-documented relocation exercise was conducted by Sir Gilbert Flemming in 1963¹. Flemming’s methodology was based on identifying self-contained areas of activity that could be relocated in their entirety to generate property and labour savings without any loss to efficiency. In tune with the available ICT, and with the civil service culture of the day, Flemming’s review concentrated only on teams where there was little contact with ministers or other stakeholders. The review resulted in the relocation of several self-contained blocks of processing, accounting and statistical functions. Of some 57,000 posts identified, 22,500 were relocated between 1963 and 1972, with around 70 per cent of these posts going to assisted areas. A further 9,490 posts were established outside London.

E.3 In 1973 Sir Henry Hardman carried out a review² of 78,000 London posts, which identified a further 31,500 for dispersal. The drivers were once again operating costs and wider regional economic concerns. The review was conducted in the context of a general reorganisation of government functions which aimed to improve the quality of policy formulation. Hardman included policy work in his exercise, and the frequency of meetings with Ministers, and contact with other units within Government and outside stakeholders were relevant factors. Other factors taken into account were: the characteristics of the local labour market; the critical mass of the relocating functions in terms of efficiency and viable career structures; and whether or not the destination had assisted area status.

E.4 Where senior staff needed regular contact with London, Hardman recommended short distance relocations, with routine or processing work going to more peripheral areas. His approach was characterised by a strong central strategy which matched functions to specific locations, and underpinned by exhaustive research into government’s communication patterns. The aim was to achieve an optimum solution taking into account effectiveness, operational cost savings, and the needs of the receiving location. In the event, around 10,000 of the posts identified were dispersed.

E.5 In the late 1980s, the focus was on controlling administrative costs and achieving more business-like service delivery. The concept of the separation of implementation and policy, and the creation of agencies dealing with operational delivery was developed by the Ibbs Report (Efficiency Unit, 1988), and taken forward by Sir Peter Kemp as the Next Steps programme.

¹ See ‘Public Sector Relocation and Regional Development’ C.W Jefferson and M Trainor, *Urban Studies* Vol. 33, No 1, 37-48, 1996. A dispersal programme also took place during World War 2.

² ‘The Dispersal of Government Work from London’, Cmnd 5322, June 1973.

E.6 The creation of Next Steps Agencies during the 1980s and 1990s resulted in some significant decentralisation, as policy and management functions were separated out, and departments were broken up into smaller units with a clearer focus on business objectives. According to CURDS' response to this review:

“Between 1989 and 1993 19,000 posts were relocated or established outside the South East, and a further 6,800 jobs planned for decentralisation. Relocation was again predominanatly driven by costs savings. According to Jefferson and Trainor (1996) the 1980s and 1990s relocations went predominantly to larger regional centres with good office accommodation and labour availability. On average 37 per cent of staff moves with the unit and 63 per cent were recruited locally. Very few senior grades were relocated, and approximately 70 per cent were in either administrative assistant or administrative officer grades and 27 per cent in executive grades.”

E.7 The process which began with the Next Steps programme has continued to produce new agencies in the 1990s, many of them relocated outside London and the South East. But, as this review concludes, supported by Lord Haskins' recent report on Defra, there is still a significant amount of delivery work being undertaken at the centre.

E.8 Since 1997, there have been few large 'set piece' moves away from London. Dispersal has proceeded more incrementally, in response to regional policy, and to the emphasis on local service delivery and the need to join up national and regional policy. This has seen a strengthened Government presence in the regions, with the creation of the Regional Development Agencies, the expansion of the Government Offices, and a growing number of other public bodies with some regional organisation. This incremental pace of change is increasingly falling short of the Government's ambitions of efficiency and regional development.

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