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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.

