



The Impact of Relocation

**A report for the Independent
Review of Public Sector
Relocation**

January 2004

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The Impact of Relocation

Overview

1. Experian Business Strategies Division was commissioned by the Independent Review of Public Sector Relocation led by Sir Michael Lyons to undertake an appraisal of completed private and public sector relocations, and examine the economic impacts of public sector relocation. Our report falls into two parts. Part One draws lessons from the experience of past relocations, and is based on a series of interviews with senior staff from ten public sector bodies and seven private sector companies. We identify what worked, what did not work and why, and we consider how these lessons can be applied in the future. Part Two deals with the economic impact of relocating Government functions from London and the South East to other parts of the UK. We revisit the conclusions of earlier analysis, examine the evidence for multiplier effects, and consider briefly the contribution that relocation might make to Government aims such as addressing regional economic disparities.
2. We found considerable evidence that relocation brings significant benefits to organisations, enabling them to reduce operating costs, reshape their culture, and modernise working practices in the light of new technology. We found that the economic benefit to areas receiving relocated government functions was greater than had been believed, and that there were broader, but less tangible benefits to these areas in terms of boosting skills and investment, and building confidence for future development and investment.
3. Organisations in our study reaped a range of benefits from relocation (Part 1: Chapter 3). Savings in pay and accommodation costs were key benefits. Organisations managed to reduce their pay bill by saving London weighting payments, and by moving to areas where the underlying wage rates were lower than those in the South East. Rent, rates and related services were also areas which yielded savings.
4. We also found that many organisations' experience was that labour markets outside the South East delivered a good supply of able staff, particularly at more junior grades. This not only improved productivity, but the improved recruitment and retention rates delivered further savings in recruitment and training costs. Recruiting new staff also provided the opportunity to develop a new organisational culture, for example with a better customer focus, and to introduce new working practices.
5. Importantly, the study revealed that the main benefit delivered by relocation was the opportunity to re-engineer the business and embrace different working methods and technologies. While reducing operating costs is a key driver, we found that long-term benefits would be maximised only if relocating to new premises went hand in hand with fundamental changes in the way the business is done. This process re-engineering was usually supported by developments in ICT.
6. Not all of the relocations we studied were successful in capturing the whole range of these benefits. Our study identified a number of factors critical to success, and we found much good practice in the planning and execution of a successful relocation

which is set out in Part 1: Chapter 4. In summary, we found that strong and committed leadership at the very top of the organisation was crucial to a successful move. Good communication with staff was important to maintain morale and prepare and persuade staff to move. The rigour and transparency of the business case was also fundamental. Risk management, realistic planning and close monitoring of progress were also key success factors. It was good practice to have a full time dedicated project team lead by a senior project manager or director.

7. We found that even when the critical success factors were well managed, organisations encountered other obstacles and risks to successful relocation, some of which were not apparent until the move was complete. With foresight and careful planning many of these can be avoided or mitigated.
8. Careful choice of location, with regard to labour supply and accommodation, is essential to ensure that costs savings are sustainable over time. Some organisations found that savings could be eroded as other organisations moved to the same location and drove up operating costs. This was particularly relevant to private sector relocations and call centre operations, where staff are prepared to switch job for a small salary increase. We conclude that good local market intelligence, coupled with co-ordination 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 area. This also underscores the importance of using relocation to deliver fundamental business change, as well as pursuing lower operating costs.
9. We found that a ‘them and us’ culture could emerge after time, whereby relocated staff felt isolated and under-valued in comparison with those remaining ‘at the centre’. This can be countered by ensuring that the same cultural and business changes affecting relocated staff are equally applied to those who do not relocate. Another mitigating measure is to base senior managers in offices in the regions, or arrange for them to make regular visits. Shared events such as training or professional seminars can promote shared objectives and consistent corporate values. Some planned face-to-face contact also facilitated successful communication via email, telephone and video-conferencing.
10. Some of the organisations in our study had underestimated the need for senior staff to travel back to London for meetings with stakeholders or Ministers. The cost of this both in terms of staff time and fares could be high, and there was a further human cost arising from the stress and burden of regular travel. We felt that this could be addressed, at least in part, by greater use of ICT – telephone conferencing, virtual meetings via Intranets, and by video-conferencing. The availability of broadband means that services are much more reliable than in the past. We know that some departments, for example, the Department for International Development, make excellent use of this technology, but that this is by no means widespread across Government Departments. We concluded that there was a significant opportunity to exploit the technology more fully.
11. One issue which emerged from the relocations we studied was that senior staff can be reluctant to relocate. The perception, especially among civil servants, that career opportunities outside London are limited, is strong. We considered this might be addressed by clustering relocated public sector functions in a small number of areas to provide a broader range of career opportunities. We also thought that clustering could build on synergies between public sector organisations, such as research establishments, universities and existing regional presence, to promote a more informed and co-ordinated approach to policy development and administration. The economic impact of clustering on an area is mixed. As discussed below, moving a larger number of more senior posts into an area maximises the economic benefits to that area. But if a large

number of posts relocate, this could drive up local wages and ‘crowd out’ private sector jobs.

12. Another counter to career isolation, mainly used by the private sector, is to make secondments away from ‘the centre’ an integral part of the senior manager’s career path. In this way each senior manager is expected to have a period of service with the organisation outside the South East. We conclude that the public sector could usefully adopt this practice, although support by way of training, networking, and facilitating return to London (if wanted) would be important.
13. In the second part of our study, we examine the economic impact that relocation of public sector functions might have on both the receiving location and on London. Sir Henry Hardman, in his 1973 analysis, concluded that public sector relocation would result in limited positive impact on the receiving area. We examined a range of existing case studies, and undertook two further case studies of our own (Leeds and Newport). We concluded that many of the assumptions underpinning the earlier analysis no longer held good, and that the economic impact on both the receiving location (chapter 2) and the UK as a whole (chapter 4) would be more positive.
14. The economic benefit of relocation to the receiving area is derived from increased spending by the relocated department and its employees on goods and services, which boost demand and create jobs ‘in the wake’ of the public sector jobs moved. But an influx of well paid public sector jobs can also drive up local pay, and can lead to the loss of jobs in the private sector. This negative economic effect has to be set against the positive, when assessing the overall impact on the area.
15. Our work suggested that the benefit to receiving locations depended crucially on the extent to which relocated public sector jobs would drive up local pay and wages. Several factors have a bearing on this, critically the available spare capacity in the local labour supply; but also the number and the type of posts relocating. Overall we conclude that to maximise the economic benefit to an area, public sector pay rates must be more closely aligned with those applying locally.
16. The type of posts relocating also has a bearing on the economic impact. Broadly, the more senior posts involved, the greater the economic benefit to the receiving location, because more senior 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. But, as outlined above, there are issues which make it more difficult to move this group from London, and this is borne out by our analysis of public sector employment in (Part 2: Chapter 5), which demonstrates that the better-paying managerial and professional jobs are concentrated in the Greater South East. We conclude that it will be necessary to address this imbalance if the full potential economic benefits for other parts of the UK are to be realised.
17. We have concluded above that clustering public sector activity in a small number of areas can encourage 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. 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.

18. 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. On balance, we concluded that, despite the potential for local 'overheating', there were considerable benefits to be derived from this approach.
19. There were ranges of wider economic impacts which are not necessarily captured by multiplier analysis and yet should not be excluded from our overall assessment. Relocation implies a significant boost for skills and investment, which are both key drivers of regional productivity. The more senior posts moved, the greater the injection of skills into the area. This could be expected, over time, to create a flow of learning to other sectors, through networking and turnover of staff. If the relocation results in a greater proportion of managerial and professional staff in the area, then this can lead to greater involvement in public services such as schools, which helps create pressure to drive up standards.
20. We also found that public sector relocation can develop confidence in the future of an area, perhaps stemming a spiral of decline, or contributing to the successful regeneration of a deprived area. A public sector presence can encourage qualified people to stay, and can act as a catalyst for further investment by reducing the risk facing potential investors.
21. We examined the potential effect of relocation on London. Here we found that moving jobs out to other parts of the UK is unlikely to have significant long-term implications for the capital. This is a consequence of tightness in the labour and housing markets in London and the city's attractiveness to private investors, due to its transport links, its reputation as an international financial and business trading centre and its general long term economic robustness. Overall, we conclude that over time, benefits that accrue due to the reduction in congestion and overheating and the boost to private sector investment encouraged by the slack in the market, will work to offset the reduction in public sector jobs.

**Part 1:
Learning from previous relocations**

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1. Executive Summary

We have investigated over 20 relocations from both the private and public sectors, including a good mix of operational and policy activities. We have also undertaken a wide-ranging literature review. This is sufficient to provide good insights into the benefits that are possible from relocation and also the issues that effective managers need to consider when planning and executing a move. These insights should help inform Government Departments (and others) in developing and implementing successful relocations. Our objectives are to highlight the prize that is available to those who relocate effectively and to indicate the practical steps that are required to enhance the chances of realising the anticipated benefits.

Overall, we found that relocations can deliver significant benefits; not only in terms of pay and accommodation savings, but also via service and efficiency process improvements. These benefits are enhanced if organisations view relocation as an opportunity to implement cultural and process changes, rather than as a pure logistical exercise. While it could be argued that effective management should be able to secure process benefits without the upheaval of moving buildings, our research indicates that relocation unlocks previous resistance to change. Relocating away from London consequently provides the double benefit of cost advantages and process and cultural improvements. The challenge for executives is to pursue these benefits aggressively, whilst also being mindful of the potential pitfalls and risks. Detailed planning, clear commitment and strong leadership are pre-requisites for success.

On the basis of the interviews, and, drawing on the literature review we also undertook, our specific conclusions are as follows:

1. Relocation can deliver substantial cost benefits.

Cost savings in terms of premises and labour costs are important relocation drivers. We identified several instances where organisations were saving 20-30% per annum in property and labour costs with savings resulting from:

- €# Lower wage rates outside the South-East;
- €# No London weighting;
- €# More appropriate grading (avoiding need to recruit at inflated London levels);
- €# Lower rents, rates, and charges for services;
- €# Centralisation of property producing economies of scale.

We found that organisations benefited from the absolute differentials in wage rates between the South East and the rest of the country. Planned labour cost savings however tend to be focused more on the opportunity to save on London weighting payments. These currently average around £3,000 to £3,500 per year per employee (examples in this range include Unilever, fire service, prison service and teachers), but can be as high as £6,000. Transferring 1,000 employees away from London could consequently save up to £35m over 10 years, while moving 20,000 might reduce costs by up to £700m. In practice, savings would be lower because payments would be phased out over time, although the net effect would still be substantial.

On the property side, we found that organisations identified significant accommodation savings as an important driver for relocation. One commented that for the cost of housing 250 employees in a central London/City office, they could locate 1,500 employees in the Midlands. Analysis of regional prime office rents in London and regional cities over the last 30 years showed that office rents have been consistently cheaper in the regions than London – in all cities and across the full economic cycle. In some instances prime office space has been 5 to 6 times more expensive in London than in some well-regarded UK cities, such as Nottingham.

2. *Relocations that focus on delivering business change are likely to deliver greater benefits than those that focus exclusively on labour and rental cost savings.*

We found that relocation gives an organisation a major opportunity to re-assess its processes, systems and ways of working. It acts as a major catalyst of change. Indeed, 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. In most cases, we found developments in ICT had underpinned business improvements. Some notable examples of changing business processes and cultures alongside relocation include: the Defence Procurement Agency, which centralised and integrated procurement for the three services in Bristol; and the Patent Office and the Inland Revenue, which both significantly improved levels of service and changed the way they were accessed by customers.

3. *Organisations can benefit from improved labour force availability and better customer service.*

Our research demonstrated that at more junior levels particularly, it is often easier to recruit good quality staff outside London and the South East, as there is generally a wider pool of well-qualified people available. Several organisations commented on the difficulty of recruiting and retaining staff in London. Public sector pay rates, particularly at clerical and executive officer (EO) levels, are not always sufficient to attract quality staff, particularly given competition from the financial services sector. One consequence of the pressure to find the right people can be “grade drift”, whereby employees end up doing inappropriate work for their level. In addition, high staff turnover can create a vicious circle whereby investing in training can be viewed as wasted expenditure, which in turn impacts on staff performance and motivation. This issue was apparent with Patent Office “Trade Marks” staff in London and contributed to the pressure to relocate.

In some cases, difficulties in attracting and retaining appropriate staff have seriously undermined the service an organisation has been able to provide. Relocation gives an opportunity to recruit afresh, addressing any underlying poor performance culture, whilst establishing new and better working practices. Several of the organisations we interviewed found that the quality of staff recruited post-relocation was significantly higher than the previous London labour force, particularly (but not exclusively) at clerical and junior grades in the public sector. This has helped organisations to improve productivity and their end service to their customers.

4. *There are also instances where relocations can significantly advance wider Government imperatives, such as regional growth, regeneration and devolution.*

In the public sector, regional economic policy objectives were one of the key driving forces behind several relocations in the 1970s. For example, the movement of part of the ODA to East Kilbride and of the Manpower Services Commission to Sheffield are examples of relocations that were partly aimed at facilitating regeneration. More recently, the regional economic agenda and political imbalance have been put forward as strengthening the case for relocation of Government functions away from the South East.

These were not specific drivers for any of the historic relocations we examined. But we acknowledge the argument that relocating sizeable elements of Government closer to local communities will reduce South East centred thinking and may generate improved and more responsive decision-making, for example by making Government more aware of regional variations in needs and priorities. However, while these benefits could be important, they did not feature in the evidence from our limited sample of relocations. Further research would be necessary to draw conclusions on the benefits which might be achieved.

Finally, we contend relocation can benefit the UK by helping to alleviate the pressure on London resources and infrastructure thus facilitating longer-term growth by easing premises and labour market constraints.

5. Effective planning and project management are required to deliver a successful move.

Our study provided evidence of the critical success factors for a successful move:

- ## A clearly set out justification for the relocation, incorporating a vision for the organisation, backed up by sound analysis and a clear business case. This must detail the anticipated benefits, costs and realistic planning assumptions. While this will be based on the organisation's best interests, it should also refer to the Government's wider regional agenda, encompassing regional growth, regeneration and devolution.
- ## Relocation must be timed appropriately with respect to other strategic initiatives. Doing too many things at the same time – new location, people, systems & processes – can create unacceptable operational risk. The risk of overload has to be balanced against the imperative for changes in culture and working practices.
- ## The business case should be supported by a risks and mitigations assessment. This should detail all expected risks, the likelihood of the risks occurring and their impact should they do so. Appropriate mitigation responses should be identified for each risk, with accountability for managing each mitigation being explicitly stated. While there are various ways in which risks can be assessed, it is important to establish a clear methodology that is used on a consistent basis. One good example is Shell's risk appraisal process that is an integral part of all its investment decision-making.
- ## An integrated full-time project management team that is in charge of all aspects of the relocation (property, HR, IT, business change), under strong project director leadership
- ## Organisations will need to make robust decisions about who to relocate. Although not broadly reflected in our sample, there is evidence that private sector companies tend to relocate only the key staff needed to ensure business continuity, and otherwise recruit locally to take advantage of lower rates and well qualified staff (Source: Locate Birmingham). Where staff are to move with the post, then the relocation must be seen to deliver real benefits for employees as well as for the organisation. The personal staff benefits and the rationale for the organisation need to be articulated, with a business vision that is not solely predicated on cost saving. An effective communication programme should be developed and line management must be on board to address employee concerns. The upheaval to staff (and their families) can be considerable and individuals need to understand why they are expected to move. Mobility clauses are very difficult to enforce in practice. Staff have to be "persuaded" to relocate. There may be a case for offering incentives to key staff, for example to secure business continuity, or achieve additional cost savings. This may not be possible given existing rules in the public sector.

6. Relocation benefits must be sustained. Long term success requires careful risk management and, critically, strong leadership and buy-in from the top.

The case studies highlighted several operational risks that can emerge, often slowly, after a move, but which can nevertheless significantly impact longer-term relocation success. The four main risk areas are:

- ## Sustaining cost savings;
- ## Twin cultures;
- ## Co-ordination and communication;
- ## Career management.

In our view, none of these risks provide insurmountable barriers to relocation. Effective management should be alert to their dangers and plan accordingly. If this is done, the chances of relocations delivering their anticipated benefits will be greatly enhanced. Typical areas that warrant specific attention include:

- ## *Careful choice of location, co-ordinated at the centre*, will sustain operating cost savings by reducing the risk of overheating in the receiving location.
- ## *Leadership* visibility is one of the easiest ways to prevent “them and us” cultures developing. An absence of senior staff makes the relocated site feel secondary and a satellite of the London based HQ. Ideally, all satellite offices should have senior executives based on site. If that’s not possible, regular senior visits and real leadership by example are a must. Success requires leadership, not just at the project management level, but also from the highest executives in the organisation. Relocation must be an integral part of the wider business vision. Thames Water and London Electricity provide good examples of this.
- ## *Investment*: Distance is a key contributor to conflicting cultures. Making a conscious effort to invest in human relationships can make a significant difference. Investing in maintaining and developing networks and relationships across sites, for example via common training, social & professional events, will pay dividends in terms of shared objectives and sense of purpose.
- ## *Reciprocity*: The relocation process must not focus exclusively on those leaving London or the South East. Consideration must also be given to those staying behind. Where possible, project teams should consider applying the same business change rules (as outlined in the planning blueprint document) to both the London and regional offices. For example, all locations should have the same operational rules governing use of offices and storage space.
- ## *ICT*: The impact of distance can be significantly mitigated by use of the internet, intranets, telephone, and video-conferencing which can all reduce the need for face to face meetings. We concluded that there is much more that organisations can do to exploit video-conferencing and other technology. We noted that organisations that have had little alternative to video-conferencing, such as DfID, have made it work very well, so that it is a standard part of general communication. Similarly, video-conferencing has worked well at the Department of Health, where there are 3 studios in Leeds and 5 in London.
- ## In contrast, some organisations have struggled somewhat with reliability and ease of use. While such difficulties may arise, we agree with the senior executive from Thames Water who commented on the importance of personal attitudes and training in making video-conferencing work. We concluded organisations should encourage their senior executives to use video-conferencing to a greater extent, particularly where individuals are currently compelling more junior staff to travel unnecessarily.
- ## *Clustering* can help address career isolation problems. Where there are linked clusters of Government, or wider public sector, activity there will be enhanced job opportunities in the area, which may give staff the confidence to leave London in the first place. Clustering also has the benefits that it can facilitate cross-departmental sharing of people and ideas, as well as property and costs. The same principles can apply to the private sector. We found instances where accounting or IT professionals were reluctant to transfer to a location as there were few alternative jobs there in the event that their current job went “wrong”. While it can reduce the relocation risk for the employee, and deliver economic benefits to an area, this needs to be set against the risk that clustering sizeable Government activities in one area can force up local operating costs and crowd out private sector activity. This is discussed further in Part 2.
- ## *Career Planning*: We found that some private sector organisations have made secondments away from “the centre” an integral part of the senior manager’s career path.

Barclays and Unilever expect their aspiring talent to build their skills in a range of differing and challenging environments. Why should the civil service be so different? We concluded that senior promotions could be made dependent on having operational or departmental experience outside the South East. However, for this to work, two safety nets require strengthening:

- Making it relatively straight-forward for individuals to return to London at the end of their secondments. i.e.) Moving out of London is not viewed as a one-way ticket (except with employee consent).
- Strengthening central career planning, so that secondees feel they are part of an integrated career management programme, with extensive networking, training and coaching opportunities.
- In addition, creating a more distributed organisation so that senior officials do not feel left out of the ‘Whitehall loop’

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7. *The debate as to whether or not “policy” people can move from London will benefit from much tighter definition and challenge. “Policy” and other senior jobs have been successfully relocated in the past.*

In the public sector, we have frequently come across the notion that “policy” people cannot be successfully relocated from London. The argument being that senior civil servants must remain close to Ministers and their colleagues and that adding an element of geographic distance will add to costs and human “wear and tear” as well as critically impact the service provided, particular at times of crisis management. One relocation project manager stated that many more staff should have been transferred, but the Department insisted on retaining a major physical presence in central London. “All the Department needs in London is Ministers, around 200-300 staff and those with a genuine role in crisis management”.

We found that there is a lack of definition of who is “policy”, who is “operational”, or indeed who is “operational policy”. Tight definitions are required. Our suspicion (albeit anecdotal) is that many policy roles are neither at the senior executive level, nor are part of the teams that work integrally in support of Ministers. For example, one Department claims it has 850 people that need to be based in London and yet has decided to pay for only 60 networked personal computers in a post-September 11th emergency recovery centre in the event of Whitehall being unable to function. Even though this applies to an emergency situation, it calls into question the number of people who genuinely have to be at the centre in order for a Department to function.

2. Introduction and Methodology

2.1 OBJECTIVES

The purpose of this report is to summarise the main lessons we have identified from analysing public and private organisations that have relocated away from London and the South East. We outline the main drivers for relocation, the tangible benefits that can accrue and also some of the main ingredients critical for successfully delivering the anticipated benefits over both the short and medium term.

The information and analysis is based on in-depth interviews with individuals, who have been involved at a senior level in specific relocations that occurred over the last 15 years. For each case study, we have reviewed the three main stages of the relocation process – business rationale, planning and execution and ongoing operations. We have identified what worked and what didn't work (albeit with hindsight) and, in summarising, the lessons to be learnt, we have also considered how they can be applied to future government relocations. Our analysis also draws on the output from the relocation literature review that was conducted as part of the preparations for the report on the regional economic impact of relocations.

2.2 THE CASE STUDIES

We reviewed a broad range of private and public sector organisations, although the primary emphasis has been on Government Departments and associated Agencies. This is largely because their cultural environment is more relevant when considering future government relocations. For example, the centralisation of government activity in London and the need for Ministers to be supported by key senior civil service advisers, who are readily available in London, is an important feature and an oft-cited barrier to the relocation of policy functions.

The public sector organisations we spoke to included:

- # Benefits Agency (DSS) - establishment of the Agency in Leeds - early 90s;
- # Customs and Excise - relocation of Vat and Excise functions to Liverpool and Manchester - late 80s/early 90s;
- # Defence Procurement Agency (MOD) – relocation from various sites in Bristol - mid 90s;
- # Department of Health - relocation of NHS Executive to Leeds - early 90s;
- # Department for International Development - relocation of back office functions to East Kilbride early 80s and some other functions since 2000;
- # Department for Trade and Industry - relocation of part of “Licensing and Consent Unit” to Aberdeen - early 90’s;
- # DfES and DWP - relocation of various policy and processing functions (including Manpower Services Commission) to Sheffield - early 80s;
- # Highways Agency (DT) - relocation from London to other offices following creation of TfL -2001/2003;
- # Inland Revenue - relocation of corporate and processing functions to Nottingham - early 90s; relocation of Regional Office HQ Woking and Exeter to Portsmouth 2000/2001;
- # Patent Office (DTI) - relocation of the Agency to Newport, Wales - early 90’s.

We also examined several private sector examples, in order to assess the similarities and differences with the public sector and to establish whether any useful lessons might be of benefit to the public sector. We have made no assumptions that this is necessarily the case.

The private sector case studies reviewed included:

- €# Abbey National: Relocated a substantial part of its mortgage administration and marketing activities to Milton Keynes in 1985 and 1991;
- €# Amersham International: Relocated two of its four business divisions to a purpose-built site in Cardiff in 1981;
- €# Barclays Bank: Relocated many of its marketing functions to Coventry in the mid 1980s. It has also announced the centralisation of its London based “policy” functions into a single site at Canary Wharf in 2005;
- €# London Electricity (now EDF Energy): Relocated customer care operations from a single site in Bexleyheath to a Greenfield business park at Doxford, near Sunderland in 1996;
- €# Thames Water: Consolidated customer care operations from across the Thames region into a single site in Swindon in 1990;
- €# Unilever: Consolidated its HR transaction and Research functions into single UK sites. Also temporarily relocating London staff to Walton as the London HQ building is refurbished;
- €# GUS: Not included as a relocation, but an example of an organisation with experience of operating a decentralised organisational structure. It has a small London-based head office, with many senior executives and subsidiaries located across the UK.

We also sought to identify instances where private sector companies had relocated significant numbers of senior executives out of London, whilst still retaining a small HQ presence in the capital. While there are several examples of companies having a regional Head Office, supported by a central London base (e.g. Boots and National Grid Transco), there are few examples of companies creating this position by undertaking a major relocation away from the capital. One exception is British Gas. It largely moved out of London when it demerged in 1997 to form two separate companies, Centrica and BG Group. However, the two companies have remained centred in the South East, in Staines and Reading respectively.

2.3 METHODOLOGY

The analysis is based on face-to-face, in-depth interviews with senior decision makers involved with relocations. However, while the evidence base consequently relies on the personal testament of those involved in relocations, we have challenged, rather than simply reported, the assumptions and beliefs presented to us. We also carried out desk-based research of published sources (a bibliography and summary literature review is attached as Annex 1).

We looked at a few relocations that took place in the early 1980s (e.g. ODA, Abbey National and Amersham International) and also some very recent examples (e.g. Highways Agency, DfID, Unilever and Barclays) to give a breadth of context and environment. However, the majority of the relocations occurred in the 1990s. Sufficient time has elapsed to judge their success and the economic environment is more relevant to current circumstances. The world has changed significantly since the 1970s across many dimensions, not least demography and work-related mobility (e.g. working partners), in technology capabilities (e.g. pc networks, video conferencing and home working) and in the structure of the civil service (e.g. the introduction of autonomous agencies in the early 1990s).

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On a secondary but practical matter, it was easier to find individuals who had been involved in more recent relocations and there is a lack of archival information with which to assess the early relocations of the 1970s.

The interviews were planned to get a good cross-section of different types of organisations and relocations, in terms of organisational structures and functions performed. Interviewees were identified by their organisations as having specific involvement and/or understanding of key relocation stages (rationale, planning and outcome). In some cases we interviewed more than one individual in an organisation.

Each interviewee was sent a template prior to the interview that set out the three relocation phases that we wished to cover, primarily:

1. The relocation rationale;
2. Relocation planning and execution;
3. The operational outcome of the relocation (both initially and over time).

Within each topic area, interviewees were asked for their views on what had worked, what problems (if any) had been encountered and what they considered to be the key lessons that could be applied to future relocations. Attention was given to the issue of relocating policy and specialist/professional staff as well as the movement of operational functions.

In some instances, the individuals interviewed did not always have knowledge of all three relocation phases. Some had a good knowledge of, for example, business rationale, but had not been involved in the organisation after it had been relocated. Others had a good understanding of the outcome of the relocation, but had not been involved in the planning and execution. However, overall, we obtained a sufficient mix of organisations and interviewees to get a good insight into the success factors and difficulties encountered in previous relocations.

Despite having to complete the interviews during the August holiday season, we were largely able to meet with appropriate individuals for each of the case studies. We are grateful to all the executives, departments, agencies and companies that have helped us so willingly during our research.

3. Relocation Rationale and Benefits

The interviews highlighted five primary drivers for relocation. In reality, combinations of the following factors are likely to underpin a given relocation, rather than one particular driver.

- €# Premises;
- €# Cost savings;
- €# Labour force availability;
- €# Catalyst for change (and changing business environment);
- €# Wider “organisation” objectives.

3.1 PREMISES

Existing premises no longer being sufficient to meet operational requirements are a common trigger for relocation. This can be due to:

- €# Leases terminating;
- €# Premises being too small or large for changing needs;
- €# Premises being spread across too many locations;
- €# Obsolescence in terms of working environment or suitability for new technology.

Consequently, organisations can use relocation as a real opportunity to start again, with modern state of the art premises: Major efficiency, cultural and customer service benefits are likely to accrue if staff like where they work and the building environment facilitates communication and modern working practices. Organisations can use a change of premises as a catalyst to introduce significant business change (e.g. The DPA and Barclays) and this is discussed in more detail in Chapter 3.4.

Other premises drivers among the case studies we examined, included:

- €# Amersham International – the existing site was not large enough to support anticipated business growth;
- €# Abbey National – had outgrown its London headquarters and the facilities needed upgrading. There was no air-conditioning and extensive rewiring was required;
- €# DfID (since 1997) – needed to grow staff numbers in the light of renewed government emphasis on International Development, but was constrained by space in London;
- €# The Highways Agency – the relocation was partially a response to leasing timetables. The end of the lease meant that staying in London would require either the costly refurbishment of the existing building or a move to more expensive premises elsewhere in the capital.

3.2 COST SAVINGS

Labour Costs

Cost was a critical driver for most, but not all, of the relocations we examined. The high cost of property and labour in London were often cited as key factors, with specific savings anticipated from:

- €# Lower wage rates;
- €# No London weighting;
- €# More appropriate grading (avoiding the need to recruit at inflated London levels);
- €# Lower rents;

Property centralisation and economies of scale.

Comparing regional wage costs using official data is not straightforward. Average earnings vary across regions because of different occupational mixes, not just because wages in like-for-like jobs are different. Nevertheless, recent data from the New Earnings Survey shows that, in public administration, average earnings on non-manual females on full-time rates in the North and Midlands averaged about 77 per cent of the London level. This ranged from a low of 70 per cent in the North East to a high of 81 per cent in the East Midlands. The average relativity was much the same in 1992 and 1997. This indicates there are persistent differences in wage costs at the aggregate level and these differences are too big to be explained by occupational variations alone.

There is also some evidence at an occupation-by-occupation level that earnings in public administration relative to earnings in the private sector are higher in the north and midlands than they are in London (Henley and Thomas (2000), Experian Business Strategies (2003)). In other words, public sector pay policies which take the form of national rates can lead to pay relativities that are out of line with private sector pay in some regions. The significance of this is that, were more regional-focussed pay policies to be introduced into the public sector (and this is on the policy agenda), we would expect a widening of the London-north/midlands pay gap and this would add further to the attractiveness of the north / midlands as a relocation destination on the basis of relative wage costs.

In the case studies, we found that, while changes in absolute wage rates could be important (e.g. London Electricity's move to Doxford), planned labour cost savings usually focused more on the opportunity to save on London weighting payments. These are usually around £3,000 to £3,500 per year per employee (examples in this range include Unilever, fire service, prison service and teachers), but can be as high as £6,000. Transferring 1,000 employees away from London could consequently save up to £35m over 10 years (or £700m for 20,000 employees). In practice, the real savings would be less than this due to the likely phasing-out of payments, although the net effect would still be substantial.

Recruiting at a grade lower than the staff doing the same work in London was another way of reducing labour costs. This was made possible by the fact that it was often easier to attract appropriately qualified staff in the regions than in London, where there can be issues of grade inflation. However, in at least one example, the grade differential policy was subsequently reversed. The organisation proactively decided that this could be discriminatory and decided that all employees doing the same type of work should be paid the same rate.

Property Costs

On the property side, organisations identified significant rental savings as an important trigger for relocation. One organisation commented that the rental for locating 1,500 employees in the Midlands was equivalent to having 250 employees in a central London/City office. In some instances (e.g. Thames Water), premises benefits were increased by economies of scale as organisations centralised several locations into a single building.

The picture is similar if considering regional rental differences over time. Table 1 shows how prime rental cost differentials between a number of locations and the Victoria/Westminster area have changed since 1980. For instance, in 1976 it was 3.2 times as expensive in Victoria/Westminster to rent office space, than in Birmingham: while it was 1.9 times as expensive in 2002.

Table 1: Victoria/Westminster -Regional Centres Office Rent Ratio

	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: IPD Indices benchmarked to 2000 values using various agents' estimates. Changes pre-1980 data are based of estimates from CB Richard Ellis

There are three main points to note from Table 1:

- €# Most importantly, office rents are cheaper in the regions than London – in all cities and across the full economic cycle. In some instances prime office space has been 5 to 6 times more expensive in London than some well-regarded UK cities, such as Nottingham.
- €# Since 1980 there has been some convergence in relative rental levels. Nonetheless, rents in Westminster and Victoria are still considerably higher than rents outside of London.
- €# The rental relativities are highly cyclical. For example, a decision made on the rental relativities of 1988 may not have looked quite so clear-cut if the actual move had not taken place until 1994 (although relativities had widened again by 2000).

When evaluating property cost savings, it is consequently important to look forwards. Even though forecasting is difficult, the large fluctuations (particularly) in the London property market indicate that it is essential to take a view on the changes in relativities that are likely to take place in the period between the evaluation and the new lease term being agreed. In addition, looking further into the future, it is also important to have some view on the likely relativities when leases come up for renewal

Overall, many of the organisations we interviewed achieved significant cost benefits from relocation, with savings of 20-30% per annum being achievable via lower labour and property costs. London Electricity, Thames Water, the Inland Revenue, Defence Procurement Agency and Customs and Excise are examples of organisations that all met their initial cost reduction targets. Some did particularly well - The Highways Agency business case showed a £40m premises saving over 15 years (compared to a move to an alternative London location).

€#

However, not all organisations delivered their cost targets. For example, the NHS Executive relocation to Leeds was expected to breakeven after 10 years, although a longer payback period is now anticipated. In addition, not all organisations tracked benefits and measured the savings effectively, making it impossible to judge success objectively.

The other side of the cost savings equation is the up-front expenditure required to secure the benefits (e.g. redundancy costs). Public sector business cases have usually benefited from the absence or very low incidence of redundancy payments for public sector staff, who did not relocate, with such staff being redeployed elsewhere in the public sector. Many of those interviewed commented that this might not always be the case in future, with redeployment becoming more difficult. This may result in additional redundancy and early retirement costs that need to be included in the business case and set against the savings in property rents and labour costs.

Case Study 1: The Highways Agency

Context

The Highways Agency supports the maintenance of motorways and the Strategic Road Network (trunk system). Its headquarters and largest office was in London, with a staff of some 500 covering:

- €# London based operational activities (Highways Engineers)
- €# Corporate support functions.
- €# A small number of senior staff who were involved in developing policy with the Department of Transport.

In November 2000, the decision was made to relocate staff from the London Office because:

- €# There was a significant business change, namely, the Highways Agency lost responsibility for London roads to Transport for London (TfL). Over 60 staff transferred to TfL.
- €# A strategic decision was made to move staff closer to customers and suppliers and create a mixed economy of functions in the regional offices. They wanted to move away from the concept of an Ivory Tower Headquarters.
- €# The timing was appropriate as the lease on their rather antiquated building with cheap rent (St Christopher House) was coming to an end and alternative accommodation in London would have increased costs substantially.

It was also recognised that real business benefits would come from better customer service and from cheaper regional salaries, although these were not formally quantified.

Relocation Process

All non-headquarters staff were to be moved from London to existing regional offices within a 2 year time frame, or redeployed. The relatively tight time frame was chosen to ensure that individuals affected by the relocation would accept that the relocation would happen and focus on the change.

The relocation was people centred rather than function centred. Jobs were relocated to locations that staff were prepared to move to. The most preferred offices to relocate to were in the SE - Bedford and Dorking. Although this was not the most appropriate base for these posts, it was accepted as an interim solution to retain specialist skills. The intention was to relocate these posts to other regional offices in the North as individuals subsequently retired, left or were prepared to move elsewhere. Of the 131 engineers who have moved only 50 moved to Northern Offices.

Staff were not required to relocate. Everyone was capable of being redeployed, and the relocation was voluntary. However, it was made clear that anyone wanting a promotion would need to move out of London. Standard civil service terms and conditions were offered in Sept 2000 – that is, payment for house move, level transfer, and protected London salaries for 3 years.

Results

The relocation has been a success. Since January 2001, 131 staff have relocated from London and 111 have been redeployed in other Government departments. Eighty staff remain in the London headquarters (of whom about 1/3 are support). 20 staff are to be relocated shortly, while a further 20 staff are still to be redeployed.

The Highways Agency filled outstanding vacancies with a mixture of internal promotions and external recruits. There has been no difficulty in getting suitable recruits. For non-specialist staff the quality of applicants has been better in Manchester and Leeds than in London. The labour market is not as tight as in London and the new staff are better qualified and more motivated.

The Highways Agency built on their existing use of video conferencing technology to facilitate the decentralisation.

The business case showed a consistent premises cost saving of £40m over 15 years - based on what would have spent if the Agency had moved to in new offices in Central London. This included a provision for enhancing existing regional offices to take on additional staff numbers.

3.3 LABOUR FORCE AVAILABILITY

At more junior levels particularly, it is often easier to recruit good quality staff outside London and the South East, as there is generally a wider pool of well-qualified people available. Several organisations commented on the difficulty of recruiting and retaining appropriate staff in London. Public sector pay rates, particularly at clerical and executive officer (EO) levels, are not always sufficient to attract quality staff, particularly given competition from the financial services sector. One consequence of the pressure to find the right people, can be “grade drift”, whereby employees end up doing inappropriate work for their level. In addition, problems with high staff turnover can create a vicious circle, whereby investing in training can be viewed as wasted expenditure, which in turn impacts staff performance and motivation. This issue was apparent with Patent Office “Trade Marks” staff in London.

In some cases, difficulties in attracting and retaining appropriate staff have seriously undermined the service an organisation has been able to provide. Relocation gives an opportunity to recruit afresh, addressing any underlying poor performance culture, whilst establishing new and better working practices. Several of the organisations we interviewed found that the quality of staff recruited post-relocation was significantly higher than the previous London labour force, particularly (but not exclusively) at clerical and junior grades in the public sector. This has helped organisations to improve productivity and their end service to their customers. At the Patent Office, major benefits, not originally envisaged, were gained from new locally recruited non-specialist staff. Similarly, Thames Water’s centralisation of their customer service operations in Swindon is now considered as a centre of excellence within the company, with much higher standards of service than before. The Department of Health also achieved a major improvement in staff retention and improved quality of clerical staff, following its move to Leeds. This process has often been facilitated by the positive experiences of employees who have moved with their jobs away from the South East. Inevitably, there are instances where individuals encounter transition difficulties, but overall, it appears that people are generally content with new lifestyles once initial uncertainties are overcome.

However, labour force improvements have not been a universal relocation experience. Two organisations, transferring call centre activities, reported difficulties in recruiting and retaining appropriate staff. Difficulties appear to have been exacerbated by too many companies locating call centres in the same area. We found one example with 5 separate call centres located on the same business park, all within sight of each other. The local labour force has developed a high propensity to switch jobs for only a small change in the hourly rate, or indeed just for variety. One company commented they were able to recruit 500 staff in just 5 weeks by slightly moderating the financial package. Over time, such competition for labour has increased wage rates, undermined some of the original rationale for moving and encouraged companies to look overseas for the next cost reduction step change. This highlights the importance of assessing underlying economic pressures over the longer term and of the need for careful co-ordination of future public sector relocations across Government to ensure the appropriate regional balance is achieved for each type of activity.

Labour force issues were found to be important drivers in some case studies. For example:

- ## Amersham International – it was becoming increasingly difficult to attract good quality local support staff within the Amersham catchment area;
- ## Customs & Excise – could not meet all its staff requirements in Southend and decided to relocate some activities, despite benefits of cheap office accommodation and no London weighting;
- ## Department of Health - uncompetitive civil service rates of pay in London, compared to the private sector made it difficult to attract and retain sufficient skilled staff;

- €# Inland Revenue – Recruitment in London was difficult as pay was not competitive and retention was a problem, as the private sector was keen to recruit highly trained Inland Revenue staff;
- €# Patent Office - The Trade Marks service in London was perceived to be poor owing to difficulties in retaining good non-professional support staff.

Our anecdotal evidence indicates that labour force availability is becoming a much more important relocation driver than was maybe the case 10-20 years ago. This is partly due to tighter labour markets and continuing skills shortages.

3.4 A CATALYST FOR CHANGE

In several case studies, relocation was used as a catalyst for changing the whole culture and approach of an organisation. Technology was often a powerful supporting enabler, in that it has made it easier to relocate activities in a way that would have been much harder 20 years ago. Some examples where technology and a significant change agenda have positively influenced relocations are outlined below:

Several agencies have been created out of Government Departments since the 1980s. They have usually been given a high degree of autonomy and been encouraged to be innovative in identifying new ways to manage their costs and to enhance their service delivery. Some Agency executives have consequently viewed relocation as an opportunity to create a new culture and this has facilitated the implementation of desired operational changes. For example, The Highways Agency (see Case Study 1) made a strategic decision to move staff closer to customers and suppliers and move away from the concept of a London “Ivory Tower” HQ. Similarly, The Patent Office concluded that skilled patent officers did not require face-to-face contact with stakeholders in London, and customers could be trained to access their services remotely using enhanced database applications. In both instances, a new location helped the agencies develop their own cultures in a way that helped staff identify with the changing role and objectives of their organisation.

Another context is organisations spread across different sites, with different processes and cultures. Significant financial, service delivery and cultural benefits can be obtained by moving these to a single purpose built site, using common work flow systems and improved technology. A prime example of this is the Defence Procurement Agency (previously the Procurement Executive), which moved from many dilapidated buildings and locations (the majority of staff were based in London) to a purpose built site at Abbey Wood, in Bristol. The DPA relocation was initially seen as a premises move, with associated cost savings. However, various evolutions of the business rationale led to significant re-engineering of the organisation in terms of procurement practices, work processes, culture and staff interaction. This has been more far reaching than the initial cost savings rationale. Further details on the Abbey Wood relocation are included as Case Study 2.

Similarly, in the private sector, Thames Water’s decision to centralise its customer service operation was motivated, not only by cost savings, but also by the opportunity to inject change. Thames Water had an entrenched customer service workforce that retained many pre-privatisation attitudes, including the focus on water rate payers rather than customers. A new centralised location was an attractive opportunity to build a new approach, with impressive results. Customer service operations are now widely regarded as a centre of excellence within the Thames Water Group.

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Thirdly, organisations such as Inland Revenue, Customs and Excise and DWP, have been at the forefront of organisational re-engineering, making efficient use of developments and capabilities in network technology and communications to site staff and activities in appropriate local, regional or national centres. Examples include the stripping of functions from local to national centres and the movement of non-location dependent operational work to centralised processing centres out of London. (e.g. Customs and Excise processing centres in Newry, Cheadle, Carmarthan and Grimsby).

Barclays, which has announced it is centralising many London activities to Canary Wharf. The main driver is not immediate cost reduction, but rather the desire to have its senior executives in one building in order to improve inter-group co-ordination, while many other activities remain at regional and local level.

Case Study 2: Defence Procurement Agency

Context

The Procurement Executive (PE) deals with procurement of weapons systems and all military supplies. The Procurement Executive had 8,000 people and a budget of £2b in the late 80s. About 4,900 staff were based in a number of poor quality buildings in London. In addition there were 2,000 staff in Bath, 800 in Portsmouth and 300 in Portland.

The main driver for relocation was the sheer expense of being in London in terms of high rents and London weighting allowances for staff. A secondary factor was the poor quality of the London accommodation. (The accommodation in Bath was similarly poor).

The “relocation from London” decision was a catalyst for site consolidation. That is, finding a site not just for London staff but one in which the whole organisation could be brought more closely together.

Relocation Process

At its height there were 27 people working on the building issues, 100 on HR issues and 180 people altogether. This included staff who had to prepare common manuals for procurement as part of the re-engineered operation.

Their solution was a high quality building, value engineering, low running costs. Every aspect of the design was subject to investment appraisal. The buildings were also “socially engineered”. They were arranged in three clusters, called neighbourhoods. Groups were split up so that there would be a land, sea, and air group in each cluster so as to enhance communication between each.

The project was run as a single holistic project- the exercise was a unified relocation project rather than separate streams for HR, IT, Finance, Accommodation etc. This was essential to its success. All streams reported directly to one management team, with the exception of IT. Although communication links were strong between the project manager for the building and the IT department.

A new railway station (Abbey Wood) was funded, as was the enhancement of the local public bus service. The latter demonstrated the latent demand for public bus transport, and was good for local community relations. Fewer car parking spaces were required than would otherwise be the case - this also has environmental and land-use benefits. There are 3,500 car spaces for a building with a capacity for 6,500 staff.

Initially no-one wanted to move from London and 25% were violently opposed. There were some very vociferous staff including people from the Bath site who were not willing to move because of the upheaval. The unions were very active. There were no redundancies or bonuses to go, but redeployment was available.

Top management commitment was absolutely crucial in pushing through the relocation. The attitude was always “how” we would do it, but never “whether” we would do it.

Results

The relocation proved to be very successful, with complete business continuity. Staff eventually accepted the relocation and were delighted with the new working conditions and new building. Significant cost savings were made.

The relocation provided the impetus for ICT improvements and faster, enhanced service levels. The original bespoke system was very complex. IT liaison with business users needed to be carefully managed to avoid “geeky” solutions. A decision was made at an early stage to replace it with what became the biggest intranet in the UK.

The key message offered to staff was to recognise that while the relocation would cause personal upheaval, the significantly improved working conditions and life style would ultimately represent a considerable improvement. It was also recognised that ‘people deserve excellent working conditions and work much better if they have them’.

Significantly, the relocation also contributed to the regeneration of the Abbey Wood area, which had previously been considered to be run down. It is now becoming more prosperous, not just due to the DPA relocation, but also as a result of the follow-up investments being made by suppliers seeking to establish a presence close to the DPA.

In addition, significant change in the external business environment can also be a major trigger or catalyst for relocation. This was an important contributing factor in the following case studies:

€# The Patent Office experienced steadily declining work volumes following the creation of, and competition from, the European Patent Office. It expected this trend to continue and, although there were also other complementary drivers (staffing and premises issues), the need to adjust to external business change was an important trigger for the relocation to Newport.

€# The DTI Licensing and Consent Unit relocated half its staff to Aberdeen in the early 90’s. This was in response to changing requirements from oil companies that were centralising their North Sea operational support activities in Aberdeen.

€# The Highways Agency relocated staff out of London in response to Transport for London (TfL) taking over many of its London activities (see Case Study 1).

Relocation gives an organisation a major opportunity to re-assess its processes, systems and ways of working. It can act as a major catalyst of change. Indeed, in Barclays opinion, failure to view a relocation as such an opportunity is tantamount to ignoring very material benefits in terms of cost savings and improved efficiency and customer service.

However, in some instances, the emphasis on base cost reduction rather than on the re-engineering opportunity has limited the eventual relocation benefits. The relocation process can become a logistical exercise, rather than being a real catalyst for change – whatever the initial intentions. A separate, but fully integrated, workstream dedicated to the delivery of business change should help keep the overall project balanced between premises, HR and operational interests.

3.5 WIDER GOVERNMENT OBJECTIVES

There are also instances where objectives other than the pursuit of the narrow best interests of an organisation can justifiably influence relocation decisions.

In the public sector, regional economic policy objectives were one of the key driving forces behind several relocations in the 1970s. In some circumstances, a department or agency may conclude that it is in their best interests to remain in London or to relocate to a destination of its choosing on efficiency or service grounds. However, these conclusions may be legitimately amended if greater benefits would be realised from the pursuit of wider Government objectives, such as regional economic policy and regeneration. For example, the movement of part of the ODA to East Kilbride and of the Manpower Services Commission to Sheffield are examples of relocations that were partly aimed at facilitating regeneration.

More recently, other regional arguments have been put forward as potential reasons for future moves away from the South East, although they were not factors with regard to the historic relocations we have examined. The first of these is the drive to devolve government activities to the regions. We acknowledge the argument that relocating sizeable elements of Government closer to local communities will lessen South East centred thinking and may hence generate improved and more representative decision-making. For example, by making Government more aware of and responsive to regional variations in circumstances and, generally, benefits from making Government less remote and invisible. These intangible benefits are likely to be important, but there is unfortunately as yet little hard evidence to support the assertions. Several studies have examined the potential benefits (most recently a Catalyst report in 2003, “Decentering the Nation”). However, no tangible impact analysis has yet been produced and we would welcome further research on this area.

Secondly, it is claimed that relocation can benefit the UK by helping to alleviate the pressure on London resources and infrastructure. This is discussed further in Part 2 of the report (Chapter 4).

In our view, decision-making that is not purely based on the interests of the relocating organisation can be justified in some circumstances. However, the business case must explicitly distinguish between the best interests of the organisation and any wider policy objectives. Transparency of assumptions and of the implications of meeting competing objectives will enhance the quality of location decision-making.

4. Planning and execution

This section reviews the prerequisites for a successful move – delivering the right people to the right building on time to budget and with the required changes to processes and systems. It is a compilation of the best practice methods from the various organisations we interviewed.

Organisations planning to relocate also need to be aware of the issues which can affect long-term sustainable success and how these can be avoided or mitigated. This is dealt with in Chapter 5.

4.1 THE BUSINESS CASE

There must always be a clear business case. Our research pointed to specific considerations, which need careful attention if cost savings are to be realised in full, most notably:

The business case must detail the rationale for relocation, the anticipated benefits, costs and planning assumptions. These should be confined, in the first instance, solely to what is in the organisation's best interests, including both tangible and intangible costs and benefits. This is straightforward for the private sector, well used to the mantra of value maximisation, but can be complicated in the public sector by other rationale objectives, such as regional policy and co-ordination of government departments. We believe it is important not to mix-up organisational objectives with wider government objectives and hence advocate a two-step approach to business cases:

- First, identify what is best for an organisation in terms of its overall efficiency and effectiveness. What does it seek to do for itself without any competing Government priorities?
- Second, assess the impact of other factors, such as the regional policy agenda – strengthening regional governance, strengthening regional economic performance and delivery in the regions, regeneration and, ultimately, regional devolution where appropriate. In this way, decisions to move away from optimum “organisation” solutions can be considered in the full knowledge of what is best for the relocating organisation and the wider interests of UK Plc. Such discipline and transparency will enhance the overall location decision-making process.

Each area should be understood on its own merits and then an integrated, informed location decision made on the basis of the greatest benefit overall.

A relocation must be timed appropriately with respect to other strategic initiatives. Doing too many things at the same time – new location, people, systems & processes – can create unacceptable operational risk.

Relocation should be evaluated as a catalyst for change, with major savings available from adopting new ways of working. However, clearly the right balance has to be struck with the point above – balancing the level of operational risk created by change with the potential rewards.

Making realistic planning assumptions:

- business cases must be built against a clear base line. This line is not a continuation of the status quo, but is based on the position that would exist without relocation (e.g. it would include any London rental and labour cost increases and any anticipated difficulties, such as congestion or labour shortages);
- build in the potential to increase the scale of relocated activities at the outset (e.g. IT infrastructure). This will limit unnecessarily higher costs later as facilities and IT have to be upgraded;

- the amount of travel back to HQ needs to be realistically assessed, but with full consideration given to the opportunity to exploit video conferencing technology. Many organisations commented that senior staff had to travel more regularly than expected following a move. This was partly due to the desire of employees to maintain networking relationships and partly an organisational insistence on face-to-face meetings for critical discussions. However, travel is a much smaller component of total costs than labour and the net effect is most likely to be an overall cost reduction. In addition, some changes to senior management practice and culture in London will help reduce the meetings culture and associated travel burden;
- don't focus on wage savings without considering the impact on productivity;
- phase in savings over time as not everything is achievable in the first year. For example, we found that many staff were still able to claim London weighting for 2-3 years after a move. (e.g. The Highways Agency). At the Patent Office, full London weighting was retained for 5 years;
- don't assume labour and rent savings last forever. Evidence suggests that some benefits can be eroded over time as local job markets became more buoyant and wages rise in response to growing competition for staff. However, this seems to be more of an issue with respect to call centre or clerical employees rather than with managerial or scientific positions that rely on a more graduate (and mobile) workforce. To take account of this, some companies stop NPV models at 5 years, with no terminal value. We consider a 10-year perspective to be more appropriate for the public sector.

In our view, the business case should be supported by a risks and mitigations assessment document. This should detail all expected risks, the likelihood of the risks occurring and the impact should they do so. Appropriate mitigation responses should be identified for each risk, with those accountable for managing each mitigation being clearly involved. This approach is simple, but effective. It helps to ensure that the planning team consider risks and mitigations at an early stage. This increases the chances of successful remedial actions being developed as appropriate. Organisations, such as Shell, frequently use this methodology as part of their investment appraisal decision-making.

Another document frequently used, at least in the private sector, to aid relocation planning is the "relocation blueprint". This summarises the working principles, values, rules and behaviours that will govern the new premises, as well as the more usual processes, technology, facilities and services. It enables executives to identify relatively early in the process how they want the new building to look and feel, and how it can contribute to delivering changes in culture and ways of working. In addition, having such an upfront statement of intent helps in several other ways, notably it:

- ## eliminates ambiguity about what the building will be like;
- ## creates a common brief for the relocation team(s); helps control costs (primarily by making original scope and objectives transparent);
- ## gains executive input and buy-in to key decisions;
- ## gains business user input and starts to build commitment and ownership;
- ## provides the basis for an integrated programme plan for the relocation(s);
- ## provides the basis for ongoing communication to the business.

Together with the business case and risk assessment, this document must be viewed as a living entity that is constantly used for monitoring, measurement and refinement.

4.2 PROJECT MANAGEMENT

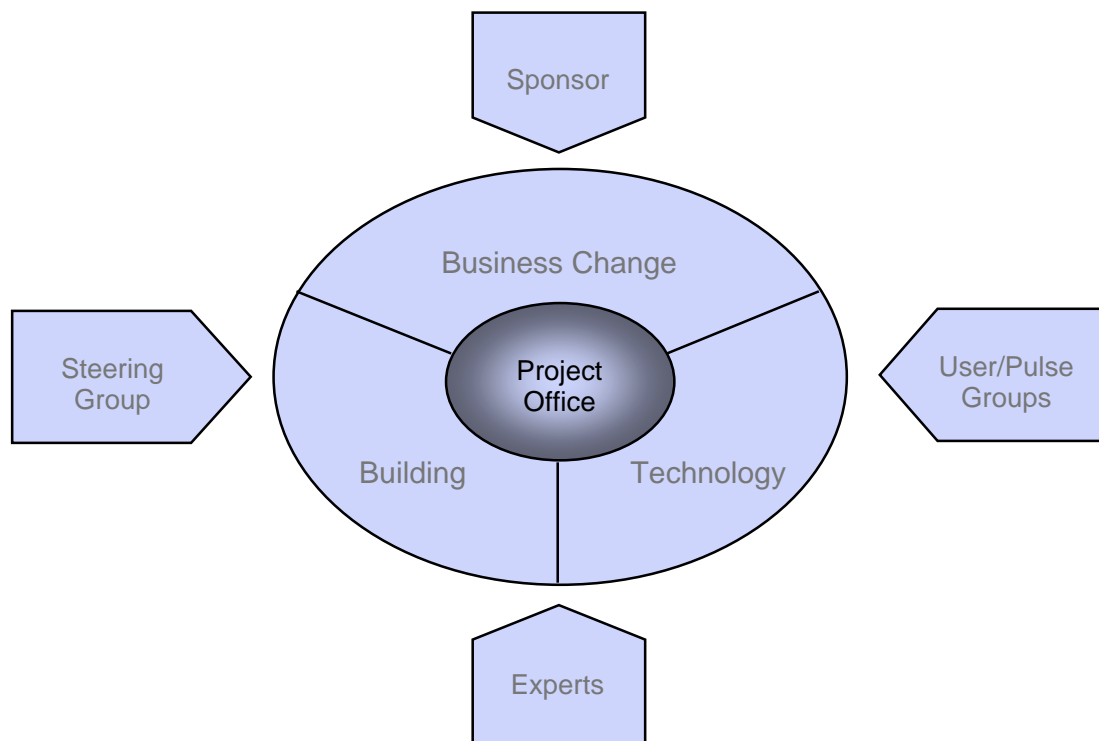
Our interviews indicate that the core project management planning team is usually fairly small. It is led by a project director, who is supported by a small project office, with at least three workstreams, covering:

- # Buildings/accommodation;
- # HR and business change;
- # IT systems.

The project management team must be in control of all aspects of the relocation and should operate on a full-time project basis, with existing day-to-day responsibilities being handed over. Otherwise it is easy to become over-loaded. One private sector company assumed their HR staff could do their day-jobs, whilst also helping 1,500 staff with relocation questions. The system quickly fell apart and an army of inexperienced temporary staff had to be brought in to help out, with adverse cost and efficiency implications. It is necessary to have the capability to deal with large numbers of staff on an individual basis.

A standard project management team approach would look similar to the one outlined in Figure 1 below.

Figure 1: A standard relocation project management structure (Source: Optimise Limited)



The planning team should also consider the following elements:

- # The project office should include one member dedicated to developing a clear benefit tracking system and project performance indicators.
- # A staff and trade unions communication programme must be put in place from the time proposals have been agreed.

- €# It is essential to avoid false starts and eliminate uncertainty as to whether the move will really happen, so that people accept that it will happen and make-up their minds as to their response. The DPA move was pre-dated by two false starts. This resulted in a high degree of cynicism when Abbey Wood was first mooted.
- €# From an IT perspective, the project team should be cautious about taking unnecessary risks and opting for complex state of the art or expensive bespoke systems. Some relocations have taken large technology risks that have paid off and helped to deliver real business change (e.g. Department of Health). Others have struggled with attempting to manage the complexity of adapting to new offices, people, processes and systems at the same time.
- €# Finally, it is important that organisations keep control of their relocations. There may be a valuable role for some specialist consultants (e.g. in building design, IT networks, legal, benefits, business change). However, generally, relocation is an area where the project team should be largely internal, with a vested interest in the success of the relocation. During the Benefits Agency relocation, the initial project team was from the DHSS and was not going to be part of the new Agency. The team underestimated the space requirements, while at the same time incorporating unnecessary premises facilities.

4.3 PROJECT DIRECTOR

The selection of the project director is a critical decision. There are no firm rules on this, with the choice highly dependent on the character of both the individual and the organisation. However, all else being equal, we make the following observations.

- €# An internal candidate will have a much better understanding of the business than an external selection.
- €# The project manager must have clout and respect within the organisation. Diplomacy and consensus making are important skills, but even more so is the ability to make difficult decisions and a willingness to ruffle feathers if required.
- €# A senior director taking their last role before retirement may not be ideal, if they are perceived to have no “skin in the game” or are likely to be resistant to radical business change.
- €# However, up and coming high-flyers may be reluctant to take such a high-profile role, as senior colleagues upset by decisions could damage career ambitions at a later date. In such circumstances, the project director will benefit from credible long-term air-cover from a senior executive.
- €# Project directors from the business may have a greater understanding of end-user requirements than an HR professional. In any event, an effective HR/business team is required.

In addition to the project director, sustained senior executive leadership is critical to any relocation. The organisation must have a strong commitment to making the relocation happen. This requires a lot of hard work and leadership. If the top people aren’t fully behind the move, don’t go ahead.

4.4 WHERE TO RELOCATE

This is an area that is being considered by others and, as such, is generally outside the scope of this report. However, it is worth making a few brief observations from the case studies on choosing a location:

- ## Locations with high-perceived quality of life and access to a strong university (and hence access to a large qualified workforce and skills base) have been attractive destinations for both employers and employees. We have found in several instances that the fear of relocation was worse than the actual move.
- ## ICT costs have fallen considerably in recent years, which in theory makes more distant relocations more feasible. On the other hand, the experience of past relocations is that travel costs have been higher than expected as fares on the inter-city routes have increased. Although a relatively small proportion of total costs, the time and financial cost of travel remain important elements of the relocation decision.
- ## The appropriate location has not always been determined using a transparent process and criteria. Some of the organisations we interviewed provided clear location criteria (e.g. the DPA and Department of Health). However, in some case studies, it is clear that more subjective measures were chosen, with little regard to long-term sustainable success.

Similarly, choosing the right premises has not been a focus of our investigations, although two themes were apparent:

- ## Attention to detail is needed with all aspects of the premises assessment. This is an area where problems frequently arise in practice. For example, The Benefits Agency underestimated staff levels. The Inland Revenue's initial design was rejected by the relevant local authority and there were property delays at both The Patent Office and Amersham International.
- ## Many organisations do not appear to have set out the design characteristics of the building they require. The Benefits Agency move to Leeds was incorrectly specified.

Interviewees also raised several other property specific factors during the course of our research. In particular:

- ## Ensure relocation does not lead to over-heating issues in the local economy. Can the labour and property markets withstand the inflow?
- ## Allow for "sufficient" video conferencing space where appropriate;
- ## Phase staff moves in manageable chunks;
- ## Determine a suitable catchment area for skilled staff/professional who are relocating;
- ## Ensure appropriate accessibility by public transport or by car (congestion, sufficient car parking);
- ## Commission an environmental impact assessment;
- ## Employ a local architect who can liaise closely with the local authority to ensure that the proposed design is acceptable;
- ## Don't choose a building just because it is available.

Finally, in reviewing some of the earlier academic studies, we noted that Goddard and Pye (1977) favoured relocation to areas approximately 60 miles from London. In contrast, Marshall et al. (1992) argued on the basis of a cost-benefit analysis of various locations that relocation was feasible to areas between the north Midlands and South Yorkshire. It is certainly true that train travel is quicker between London and some more northerly destinations such as Leeds, Doncaster and York (i.e. on the East Coast Mainline) than it is to some destinations in the Midlands.

The lesson is that overall travel costs (including the cost of time lost and human wear and tear) are so important that they must be evaluated on a case-by-case basis. At present, locations on the East Coast Mainline have a distinct advantage in terms of journey times. In time, the upgrade of the West Coast Mainline may erode this advantage. Thus, consideration of future changes also needs to be made.

4.5 WHO TO RELOCATE

We have investigated several types of relocations, with different mixes of operational and policy personnel involved. For example:

- # Operational activities only, with most staff primarily recruited locally, rather than transferred (e.g. Thames Water, London Electricity, ODA).
- # Relocation of skilled specialists, but clerical staff recruited locally and many senior executives remaining in London (e.g. Highways Agency, Benefits Agency);
- # Relocation of back office functions that include some senior staff (e.g. Inland Revenue, Customs and Excise);
- # Integral or cohesive organisations that include significant numbers of senior staff as well as operational and support functions. (e.g. National Health Executive, DPA, Patent Office, Amersham International, Abbey National).

The logic behind moving operational activities is straight-forward. Unless the services are directly supporting the local population, there is little justification for them to be located in the relatively high cost South East. Relocation to cheaper parts of the country will result in labour and property savings, releasing funds that can be invested in other areas. However, successfully relocating these operations is not without risk and careful planning and management are still required for a smooth transition.

The issues surrounding the other relocation types are more complex. Decision-makers often have to juggle a range of objectives and challenges. For example, how can relocation:

- # improve the cohesiveness of an organisation? How can a “them and us” culture be avoided?
- # new technology be leveraged to best effect? To what extent can technology (and other initiatives) minimise any additional travel burden?
- # lead to improvements in service? Can the service standards be maintained for London based stakeholders, and Ministers (many of whom spend a considerable amount of time outside London during the course of their working week)?
- # improve formal and informal cross-departmental co-ordination?
- # create more comprehensive career paths, including better career opportunities for individuals who do not wish to live in London. How can employers limit the loss of senior staff who are not prepared to move from London?

In the public sector, we have frequently come across the notion that “policy” people cannot be successfully relocated from London. The argument being that senior civil servants must remain close to Ministers and their colleagues and that adding an element of geographic distance will add to costs and human “wear and tear” as well as critically impact the service provided, particular at times of crisis management.

Based on our analysis of both private and public sector case studies leads, we conclude that:

- ## There is no definition of who is “policy” and who is “operational”, or indeed who is “operational policy”. The anecdotal evidence suggests that much tighter definitions are required and that in several instances employees are being retained in London under a “policy defence”, when in reality their roles could be as effectively undertaken outside the capital. In strict terms, in the words of one executive “you should only be policy if you have a vote”.
- ## There are several examples where senior managers have successfully located away from London. At the Patent Office, there was a strong belief that intellectual property specialists needed to stay in London. Experience has proved otherwise. Over 2/3 of the 280 patent examiners also relocated. Other examples include the NHS Executive, Abbey National and, more recently, the retail arm of EdF Energy (formerly London Electricity), which is now based in Hove. It can be done, particularly when firmly supported by a strong management team.
- ## Several executives mentioned the additional efforts they had to make to keep their organisations relevant and noticed following relocation. However, this was not found to be a long-term issue if management prioritised such activities. In addition, many executives raised the importance of travel time to London. In particular, a 2-hour journey time enables executives to have meetings in London in the morning, whilst being able to be back at their desks in the afternoon. It makes a difference, if going to London does not mean a day out of the office.

The examples above refer to executives who we consider genuinely fall under the category “policy”. Our suspicion (albeit anecdotal) is that many claimed “policy” roles are neither at the senior executive level, nor part of the teams that work integrally in support of Ministers. The location of these roles should be challenged.

For example, one department claims it has 850 people that need to be based in London to support Ministers and yet has decided to pay for only 60 networked personal computers in a post-September 11th emergency recovery centre in the event of Whitehall being unable to function. In addition, one project manager responsible for moving over 3,000 people, commented that many more could have been transferred, but for the Department insisting on retaining a major physical presence in central London. “All the Department needs in London is Ministers, around 200-300 staff and those with a genuine role in crisis management”.

4.6 THE PERSUASION CAMPAIGN

Relocations should be seen to deliver real benefits for employees as well as for the organisation. The personal staff benefits and the rationale for the organisation need to be articulated, if possible with a business vision that is not 100% predicated on cost saving. An effective communication programme should be developed and line management must be on board to address employee concerns.

The upheaval to staff (and their families) can be considerable and individuals need to understand why they are expected to move. Mobility clauses are very difficult to enforce in practice, particularly with the complications created by spouse or partner employment. Staff have to be “persuaded” to relocate.

Success requires persuading the right people to agree to move, both in terms of numbers and skill profiles. Some organisations have lost valuable experience when key staff decided to remain in London, putting additional short-term pressure on those who remained to maintain service and efficiency standards. For example, fewer than 10 managers transferred with London Electricity to their Doxford call centre. Similarly, Customs & Excise were affected by the loss of considerable tax knowledge as many experienced staff decided they did not want to move to Manchester. Sometimes reluctance to relocate was due to difficulties caused by spouse employment, but in other circumstances a better approach and relocation package might have yielded improved results. The following relocation package components were commonly adopted by many organisations to good effect:

- ## Help with selling existing homes, including, in some circumstances, guaranteed prices, based on several valuations;
- ## Move costs and mortgage assistance;
- ## Salary and London weighting retained at existing levels for 2-5 years;
- ## Reconnaissance trips to the new location, plus detailed information packs;
- ## Assistance from the local council;
- ## Trial periods, with short-term commuting support before a commitment to relocate.

One private sector company went a stage further when centralising four sites into one. It had originally planned a two-year transition, but, after calculating all the interim costs, it offered employees significant financial inducements for agreeing to a much faster relocation timetable. Employees received £12,000 extra if they moved within 6 months or £5,000 extra within 12 months. There was a parallel “stick” approach in that those refusing to move were only offered statutory redundancy and there was a ban on living more than one hour’s drive away from the new site on safety and environmental grounds. Over 90% of employees actually transferred and the company saved much more than the additional employee relocation payments. Some public sector organisations limit relocation benefits so that employees are compensated only for out of pocket costs, but cannot be left financially better off for moving. The above example indicates that there are circumstances where employees can justifiably benefit financially from a move, perhaps significantly, so long as the organisation reduces its overall costs by more than the additional employee payments.

5. Sustainable Operational Success

There is a distinction between a successful move and a successful relocation. While the former focuses on achieving a trouble-free logistical transition from A to B, on time and to budget, a successful relocation requires the delivery of sustainable operational benefits over the longer-term. Ultimate relocation success is not guaranteed by a trouble-free move.

The case studies highlighted several operational risks that can emerge, often slowly, in the years after a move, but which can nevertheless significantly impact longer-term relocation success. This section reviews the following four risk areas and outlines how managers can seek to overcome such difficulties:

- # Sustaining cost savings;
- # Twin cultures;
- # Co-ordination and communication;
- # Career management.

In our view, none of the risks highlighted provide insurmountable barriers to relocation. Effective management should be alert to their dangers and plan accordingly. If this is done, the chances of relocations delivering their anticipated benefits will be greatly enhanced.

5.1 SUSTAINING COST SAVINGS

Operational Risk

Careful choice of location, with regard to labour supply and accommodation availability, is necessary to ensure that cost savings are sustainable. Some organisations found that cost savings could be eroded as other organisations followed suit and drove up pay and accommodation costs. This was particularly relevant to the private sector and to call centre operations, where staff are prepared to switch job for a small salary increase.

We did not come across the same issue with respect to “policy” oriented employment. This could be because locations with a high proportion of managerial or professional jobs are attractive magnets for graduates and this can serve to keep labour market supply and demand more balanced over the longer term.

Risk Mitigation

Co-ordination of public sector relocations at the centre will help avert the risk of localised overheating caused by a large number of posts moving to the same area. This also emphasises the importance of focusing on business and cultural change as well as on just cheaper labour and rents.

Relocating purely on cost grounds can be dangerously short-term. Unless there are strong barriers that prevent competitors following, there is a high chance that cost advantages get competed away over time, particularly for private sector operational functions. For example, call centre wages increase as more firms set up on the same business park or rents rise as an area becomes economically stronger. This is one driver behind private sector firms seeking to make next generation step changes in cost efficiency by moving activities off-shore to India.

The best way to guard against the erosion of cost savings is to ensure that relocations are planned to deliver significant benefits from changing working practices and leveraging modern technology rather than being dedicated solely on wage and rent savings. In addition, organisations can try to build barriers into the initial planning stages that make it harder for others to replicate their actions. For example, locating MOD civilian work near to operational bases and benefiting from spouse employment.

5.2 TWIN CULTURES

Operational Risk

A number of interviewees stressed the importance of creating a strong sense of identity and culture at the relocated site, without diminishing the feeling that they were part of the parent organisation, often based in London. Many, particularly in the private sector, commented on how unhealthy “them and us” cultures can grow over time between London and relocated regional offices. One interviewee commented that we were “treated like a lost tribe – and started to behave like one”. Another stated that their office was referred to as the “back of beyond”. In all instances, sustained attention is required from senior executives on building and sustaining the desired behaviours and cultures at both old and new locations.

Risk Mitigation

Leadership: Leadership visibility is one of the easiest ways to mitigate against “them and us” cultures. An absence of senior executives can make relocated staff feel secondary to London based employees. In contrast, some companies, such as Thames Water and London Electricity, mentioned that board directors frequently made visits to their offices outside London; often simply to walk the corridors and talk to the management team and staff. Ideally, all satellite offices should have senior executives based on site. If that’s not possible, regular senior visits and real leadership by example are a must.

Investment: Distance is a key contributor to conflicting cultures. Making a conscious effort to invest in human relationships can make a very significant difference. Investing in maintaining and developing networks and relationships across sites, for example via common training, social & professional events, will pay dividends in terms of shared objectives and sense of purpose. In addition, the more people know about each other, the easier (and cheaper) it will be to communicate via telephone rather than video-conferencing.

Unfortunately, investing in people and networks is a tempting area to cut when cost efficiencies are required. However, the cultural and business impact is felt long after the relatively small savings are banked.

Reciprocity: The relocation process must not focus exclusively on those leaving London or the South East. Consideration must also be given to those staying behind. Where possible, project teams should consider applying the same business change rules (as outlined in the planning blueprint document) to both the London and regional offices. For example, all locations should have the same operational rules governing use of offices and storage space.

In addition, early attention should be given to the redeployment and redundancy processes that might be required for those not relocating. Clear communication and early provision of options, such as outplacement services, reassures both those leaving and those staying behind. If done well, it helps to cement a common culture (this is the way “we” do things) and the recognition that people are respected and treated equitably.

5.3 CO-ORDINATION AND COMMUNICATION

Operational Risk

Senior policy staff who have relocated in both the private and public sectors usually have an ongoing requirement to go to London for meetings. Train services have got worse (longer and less reliable) and a visit to London can take a whole day. This exerts considerable travel and communication pressures, with resultant productivity and cost implications. We interviewed several executives who stated that travel post-move had been significantly under-estimated, resulting in both higher costs and significant human “wear and tear”. As one public sector interviewee put it “the more senior you are, the more ragged you get”.

The problem is often made worse by the reluctance of London based staff to travel to regional offices. Ministers and senior civil servants who are based in London have a meetings culture and staff are required to come to London to give advice, take part in policy review and give regular updates of developments. 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.

In addition, a number of departments are involved in a high degree of cross-departmental work, which necessitates meetings in London as the most convenient location. Given the north - south dominance of the UK’s transport links, London is usually the most convenient place to hold inter-departmental meetings, even if all departments are based outside London.

In the private sector, companies have commented about the time lost due to a heavy travel burden and poor transport infrastructure. Similarly, concerns were raised about the tendency of business units in separate locations to do their own thing, sometimes to the detriment of the overall group position. One company mentioned a “hydra” effect – the tendency over time of both London and satellite offices to re-grow business activities for their own needs, rather than use specialist services located elsewhere (e.g. HR, communications & marketing).

In a few circumstances, organisations have reversed relocation decisions and brought policy people back to London. For example, Barclays has returned financial, accounting and marketing employees. However, while travel and co-ordination problems can become severe, reversal decisions need to be placed in a wider context and remain very rare.

Risk Mitigation

Video-conferencing is widely used and can be an effective means of holding some meetings without the need for staff to travel to London. We believe there is much more that organisations can do to ensure they gain the most benefit from video-conferencing. We note that organisations that have had little alternative to video-conferencing, such as DfID, have made it work very well (in terms of greater practicality and cost savings compared with overseas travel), so that it is now a standard part of general communication. Similarly, video-conferencing has worked well at the Department of Health, where there are 3 studios in Leeds and 5 in London. Costs of video-conferencing were initially £100,000 per studio, but this was repaid in one year by savings in travel costs. Studio costs have now fallen to the £10,000 to £20,000 level, making further investment even more beneficial.

In contrast, some organisations have struggled somewhat with reliability and ease of use. While such difficulties may arise, we agree with the senior executive from Thames Water who commented on the importance of personal attitudes and training in making video-conferencing work. Organisations should look to encourage, or indeed, force their senior executives to use video-conferencing to a greater extent, particularly where individuals are currently compelling more junior staff to travel unnecessarily. We believe it is important that Ministers and senior

civil servants challenge their own preferred approaches and consider the additional costs that can sometimes result from pursuing those preferences.

In addition, planning meetings or discussions where people know each other well can be very adequately conducted via telephone conference call. Telephone is far from being obsolete in the age of e-mail and video-conferencing and is often the preferred communication method in large, dispersed sectors, such as consulting and financial services.

Despite the potential for improvement, there is nevertheless a view that video-conferencing is not suitable for all types of meetings. Some contentious meetings or negotiations, where body language is important, are still best undertaken on a face-to-face basis. The onus is on individual organisations and their senior management to tackle management practices and culture in London, so lessening the meetings culture and associated travel burden.

Centralisation: In the private sector, the desire to improve inter-business unit co-ordination is one of the main drivers behind Barclays' intended move to Canary Wharf. It is anticipated that locating all the senior executives on to a single site will improve Group co-ordination and lead to better decision-making, for example with respect to the allocation of scarce financial and human resources. In short, the expectation is that it will be easier to manage the Group to a common purpose with all the senior executives co-located.

5.4 CAREER MANAGEMENT

Operational Risk

Career Isolation: Individuals who want to progress above Grade 5 in the civil service often believe that staying in London is important for their career ambitions. The fear is that a move to the regions creates an unacceptable risk of becoming isolated or forgotten. This is exacerbated by a strong culture for senior grades to be visible in London. For example, apart from regional heads, there are only 2 grade 4s at the Customs & Excise in the North West. In addition, there has been a reduction in senior civil servants at the Inland Revenue in Nottingham since the relocation. There is now one grade 4 (compared with 3 initially) and no grade 3s (1 initially).

In contrast, in the private sector, executives are expected to experience many different facets of their businesses as part of their development and learning process (e.g. Unilever, BP, Barclays). While there is a risk of becoming a forgotten expatriate on an international secondment, the culture is such that executives instead focus on the opportunities created. They are helped in this by the knowledge that their progress is continuously monitored and that there are usually plenty of opportunities to return to London within 2-3 years.

Anecdotally most staff who have relocated have not moved back to London again (or are prevented by the house price barrier). This in turn poses a problem for career planning, given a permanent leakage from London of talented and skilled policy staff. This can also result in fragmented departments (those who only work in London and those who only work outside London) and an incomplete career experience of both operational and policy issues.

This can lead to a "them and " us" situation where a new location is a self contained process factory and regarded by the London based centre as a distant satellite. The absence of senior staff can also lead to a sense of being leaderless.

Risk Mitigation

Clustering is potentially one way of addressing career isolation problems. In theory, additional benefits can materialise over time if a number of public sector organisations relocate to the same area, creating clusters. The potential benefits of these clusters is that employees have improved career opportunities across the public sector and hence feel more comfortable about leaving London in the first place. This can be valuable for public sector organisations as it can facilitate cross-departmental sharing of people and ideas, as well as infrastructure and costs. The same principles can apply to the private sector as we came across instances where accounting or IT professionals were reluctant to transfer to locations where there were few alternative jobs if their current employment went “wrong”. Clustering can therefore reduce the relocation risk for the employee. However, despite this, there are crowding out and labour cost issues for the employer. This is discussed further in Part 2 of the report (Chapter 2).

There has been some development of public sector clusters in South Yorkshire (Sheffield, Leeds) and South Wales (various DTI agencies). This does not appear to have been a specific intention of these relocations, which were primarily driven by the requirement to save costs on premises and staff. Similarly, inter-departmental clusters have hitherto been the result of changes in government structure (particularly employment, education and training, but also health and social services), where individual parts of one department have found themselves in different departments after a government reorganisation.

Career Planning: We believe the civil service can learn from private sector organisations that have made secondments away from “the centre” an integral part of the senior manager’s career path. Barclays and Unilever expect their aspiring talent to build their skills in a range of differing and challenging environments. Why should the civil service be so different? Senior promotions could be made dependent on having obtained the required operational or departmental experiences outside London. However, for this to work, two safety nets require strengthening:

- # Making it relatively straight-forward for individuals to return to London at the end of their secondments. i.e.) Moving out of London is not viewed as a one-way ticket (except with employee consent).
- # Strengthening central career planning, so that secondees feel they are part of an integrated career management programme, with extensive networking, training and coaching opportunities.

Annex 1:

Literature Overview and Bibliography

Literature Overview

This annex provides a brief overview of relocation literature. It does not purport to be a comprehensive coverage of all relocation literature; indeed, this would be a study unto itself. It does, however, draw the literature together to provide a brief UK relocation history, and highlight the general issues raised in the literature.

The literature over time

- €# Pallenbarg et al (2002) provide a comprehensive overview of relocation studies since the sixties. They highlight the UK dominance of information about relocation in the fifties and sixties. The relocation focus at this time was primarily on external factors pushing the firm from the old location or pulling the firm to the new, rather than firm internal factors. In the seventies more research started emanating from the US, Germany and the Netherlands, although the literature remained largely dominated by the UK. The strong interest of UK economists and researchers is likely to stem from the focus of regional policy around this time on moving industry to assisted areas using subsidies (labour and capital) and location controls. As Keeble (1976) stated, 'British statistics and research are substantially in advance of those in most other countries'. According to Pallenbarg et al, the seventies were considered the 'fluorescence of classical firm migration research'.
- €# In the eighties the number of firm migration studies dwindled. The increasing tendency of the urban-oriented firm relocation studies that were popular at the time to be contracted out to consultancy firms perhaps explains the lack of publications. In the nineties the interest in firm relocation as an answer to regional development issues diminished and the view became that regions should create conditions that inspire innovation and the creation of new economic activities. Thus, the interest in relocation came from a different angle, this being as a location strategy for removing restrictions on growth. Research also started to focus on the firm decision making process.
- €# While the literature has evolved considerably, the view is still held that more research into the influence of internal factors on firm migration is needed and has been too neglected in the past. Another area considered worthy of further research is the sometimes conflicting firm and regional policy strategies as they relate to relocation. For instance, what stance to best take when what works for one does not work for the other.

A relocation overview

- €# There have been two distinct phases of UK civil service restructuring: the first phase consisted of relocation strategies aimed to 'accommodate' change; and, the second involved strategies aimed at transforming the civil service.
- €# The round of civil service dispersals from 1963 to 1977 resulted from the need to 'accommodate' the expanding public service in the emerging fiscal crisis. It was representative of the uneven economic development at the time and the role of regionalism in policy formation. Dispersal was a means of both creating jobs in the regions and addressing 'regionalist' demands.

- €# Dispersal also addressed the recruitment pressures of the time. The civil service was a relatively poor payer and financial constraints prohibited higher salaries. Attempts were made to rectify the problem through, for instance, more advertising, lowering entry qualifications and raising age limits but candidates were still lacking (despite being in adequate supply elsewhere in the private sector). The crisis was largely in the female labour market with the staff shortages in clerical and secretarial jobs. Indeed, it was largely secretarial and clerical grade that were dispersed, with head office functions remaining close to London. Thus, the availability of female labour was a central decision to relocation strategy.
- €# The nationally determined employment condition in the dispersed offices could better compete in the new locations. They were thus better able to attract higher qualified and staff turnover was much lower. The dispersal also enabled reorganisation of work practices.
- €# The situation changed in the late seventies and the growing fiscal crisis brought about attempts to limit public expenditure; the public sector came to be regarded as an 'unproductive' burden on the economy. Further, regional development was no longer a priority and by the early eighties rising unemployment had eradicated any recruitment issues in London and the South East.
- €# 1974 is regarded as the year the relocation trend faltered in Europe and from this point in time the number of relocations started to diminish. Rising unemployment removed the labour market impetus to move (in particular, long-distance) and economic recession increased uncertainty, which impinged on firms investment decisions – why take risks when who knows what will happen? 'Redistribution of economic growth is regarded as a luxury problem'.
- €# The first round of decentralisation (1963 to 1973) resulted from Sir Gilbert Flemings relocation programme and involved the dispersal of 32,000 posts from London. In 1973, the Hardman report resulted in a further 31,000 jobs being designated for dispersal from London.
- €# As summarised by Marshall and Alderman (1991), 'these were centrally planned decentralisation exercises which, in the Hardman report, went as far as assessing the different communication needs of parts of government and identifying potential destination locations with high levels of unemployment and plentiful supplies of clerical labour.
- €# In the UK in 1977, the 1974 dispersal programme was rephrased due to spending cuts and in 1979 was abandoned because it was considered too far removed from the 'Hardman' principles, which were based on efficiency. These made the dispersals 'impossible to see justification for'. Further, the 1979 election of the conservatives brought with it new philosophies: 'The election of the Conservatives in 1979 brought into power a Government whose economic ideology placed the management of the Civil Service in the forefront of the changes they wished to make. Their avowed intentions to reduce trade union power, to reduce the public sector borrowing requirement, and to control public expenditure, inevitably led to a desire to change the way the civil service had been operating' (Tyson, 1987).
- €# During the eighties the civil service was rationalised and reorganised by successive governments. The changes, alongside the financial restraints and the heightened attractiveness of the private sector (higher wages and growing employment opportunities), sent staff morale plummeting. Staff turnover and resignations increased

dramatically. The pressures on the civil service, which involved a lack of competitiveness, were now largely financial. It was regarded as being 'exemplar' of the unproductive, inefficient and expensive public service.

- €# Thus, by 1988, we had moved from 'accommodating' aims to aims focussed on transforming the civil service to make it small, efficient and cost effective.
- €# At this time, the South East was overheating again, spatial development was uneven and regional policy 'had been reduced to a minimalist rump, with a largely social *raison d'etre*' (Marshall et al (1991). Relocation was now a considered a way to achieve the necessary restructuring *and* address uneven spatial development.
- €# As is indicated above, the new bout of relocations was different for a number of reasons. The relocations were at the government rather than department level. Further, the primary aim was to cut costs and raise efficiency, although regional and national benefits were of course considered. All departments had to review their location and regularly assess cost savings from relocation.
- €# The dispersed public sector contribution to regional employment was relatively small implying the displacement effect in the receiving region would be minor. There were, nonetheless, benefits such as reduced operating costs and a boost to the quality of regional jobs with high quality, stable employment. (The extent of these benefits would, of course, vary by region.) Another benefit was that pressure in the source region is relieved. This latter point became relevant in the late eighties when the South East was starting to overheat again.
- €# 'In the nineties the lessons of previous decades are learned'. This is when the focus turned from regional development to creating conditions for innovation and new economic activities. The view became 'space creates economic growth' and the emphasis fell on achieving sustained growth. Interest turned to cities as engines of economic growth.
- €# The types of firms relocating over the decades had evolved from industrial to wholesale to business.

General Points

- €# The case for relocation clearly weakens in times of rising unemployment and weaker growth, however, as history has dictated, there is a major cyclical element in the process and thus a long-term view in location planning is imperative.
- €# Most early studies agree on the importance of causes (push and pull) and the impact on local economies, including the policy options to stimulate these economies. Labour shortages are cited as the main reason, although it is acknowledged that the impact on employment is ambiguous.
- €# Researchers agree that space and transport are important, particularly for short-distance moves. Labour shortages are more important for long-distance moves, although less so in times of unemployment.
- €# A much-cited UK example showing how relocation can contribute to employment is Cornwall, Devon and Wales, where post-war relocated firms are thought to contribute to 25-30 per cent of industrial employment.

- €# When considering relocation, transport infrastructure is obviously important – all else equal, relocation is generally only desirable when the costs at the new location are less than at the old. The cost gains also have to compare with the costs of transition and relocation sunk costs. However, there are other important location factors to consider, such as quality of life, labour market conditions, and local costs. Soft costs, such as local policy and the local image also have bearing on the relocation success.
- €# In a US based study (1995) it was found that the main reasons for international business relocation were expansion and cost (irrespective of whether plant or headquarter). In a European context, it has been put forth that restructuring and innovation-promoting flexibility to market conditions are at least as important.
- €# Twenty years ago, when the South East was overheating, many companies relocated to ‘somewhere cheaper’. Ten years ago business parks ‘in rolling fields’ were the preferred destination. Today many companies realise they made a mistake by not considering the broader picture. ‘People are more important than bricks and mortar’ (Lawson, 2002). Some were now isolated from customers, staff had problems getting to work and so on and so forth.
- €# Other relocation ‘push’ factors often come into the equation. Companies may relocate to change their workplace structure or staff profile. An example is provided where the company moved 40 miles out of London to find a more ‘stable staff profile’. Companies may also be motivated by the desire to move everyone under one roof.
- €# Lawson (CBI relocation, 2002) cites the following lessons learnt from past private sector relocations:
 - Ensure top management is aware of the growing need to relocate before its too late;
 - Always be aware of property issues – how will you get out again;
 - Never make the decision independent of the business plan;
 - Success needs a mix of dictatorship and consultation – ensure staff feel involved. ‘Its vital to keep people in touch or a vacuum develops and sucks in all kinds of problems’.
- €# In the logit study undertaken by Brouwer et al (2002), they identified the following factors as the most influential in a firms decision to relocate:
 - Internal: sector; status (i.e. organisation type); ownership; size; age; growth; take-over; merger; acquisition.
 - External: market size.
 - Location: country; headquarters located in another country
- €# The study concluded that small, young firms are more likely to move, as are firms with changing number of staff (whether increasing or decreasing). Further, firms involved in a merger are more likely to be open to relocation than firms involved in an acquisition.
- €# Other factors include new technology, firm size, and uncertainty.
- €# Studies have found that innovative firms are more likely to relocate than non-innovative. Additionally, (and intuitively) manufacturing firms (in particular those with low inbuilt sunk costs) are more likely to relocate than market-oriented service firms.
- €# The difference between the private and public sector is important. That is, on top of efficiency changes and operating cost considerations, economic or opportunity costs

need also to be considered to take account of the broader national resource costs and public benefit.

- €# On the employee side, the following factors have been identified as influential (IR_RR 413):
 - The influence of family and social relationships
 - House-price inflation
 - An employee's age
 - The impact on a spouse

- €# These are typically addressed through relocation packages.

- €# Relocation and redundancy packages, regional differences in the labour market, house prices, uneven spatial performance, and the general 'culture' of the localities in question will all influence employees acceptance of the move.

- €# Studies have highlighted the importance of gathering employee support for relocation in the post-relocation success, with a clear correlation implied between post-relocation satisfaction and pre-relocation perception.

- €# Concern is often raised that public sector relocation to the regions may crowd out private sector employment. It has been shown that while the relationship between public and private sector employment across the British regions exists, it is not necessarily that strong (Henley and Thomas, 2000). It was also shown that the public/private wage differential is typically higher in higher-unemployment regions. This has been taken to suggest that, provided the two labour markets are sufficiently segregated, the multiplier effect would be more likely to dominate any displacement effect in these regions.

- €# The expansion of multinational enterprises (MNE) has encouraged investigation into how the relocation of production to, in particular, low wage countries will affect employment levels and labour-force composition. In an assessment of the literature in the area, van der Berghe (2001) concludes that most research has concentrated on this area; however, the employment effects of international relocation on domestic employment have only recently been investigated and the results so far are considered mixed, with further research needed. Additionally, the latter case accounts for 80 per cent of such relocations. The problem appears to lie with 'the lack of recognition of the MNE as a strategic player in the process of internationalisation'.

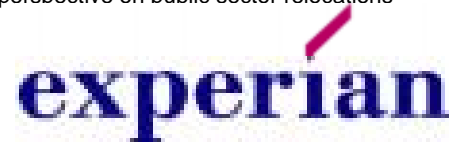
- €# Several multinational companies have relocated in the last few years with a view to taking advantage of healthier economies or more robust markets. According to the Puget Sound Business Journal (April 2001, they may also be trying to change their image from that of a domestic company to an international company (e.g. Boeing). Other examples are: ABB Ltd (moved from Sweden to Switzerland to break ties with Sweden), Pharmacia Corp (Italy to England after mergers before merging with Mansanto Corp. and moving headquarters to New Jersey to be near large pharmaceutical companies there).

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**Part 2:
A regional economic perspective on
public sector relocations**

**A Report for the Independent
Review of Public Sector
Relocation**

JANUARY 2004

A regional economic perspective on public sector relocations

January 2004

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1. Executive summary

In this report we assess the regional economic impact of previous relocations. We include an appraisal of the multiplier effects that may result from relocation, at a regional and UK level, the broader regional considerations, and the potential long-term effects.

We looked again at Sir Henry Hardman's conclusions that there would be limited benefit for the receiving area. While the assumptions underpinning the Hardman study may have applied 30 years ago, we concluded that times have changed and many of Hardman's conclusions no longer hold. In particular:

- €# 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. Our study suggests this is no longer the case.
- €# Regional disparities in unemployment, and overheating and congestion in localised areas, imply that the UK as a whole will benefit more than Hardman suggested.
- €# We are more positive than Hardman about the possibility that public sector jobs will 'crowd out' private sector jobs. As we will demonstrate, given a flexible labour supply and/ or flexible public sector pay bargaining, relocation can be shown to have a positive impact on the receiving area, not a neutral impact, as Hardman concluded.

On balance, our analysis suggests that receiving locations would *probably*, but not *necessarily*, benefit from public sector relocation, depending on the precise circumstances applying. This is because there are conflicting tensions within the overall impact. That is, the receiving location will benefit from spending by the relocated department and its employees on local goods and services, but this will be partially offset by any loss in private sector jobs ('displacement'). Such losses may occur because an influx of better paid public sector jobs drive up local demand for staff and wages, reducing the competitiveness of private sector jobs. The extent of displacement also depends crucially on the amount of spare capacity in the local labour market, and the flexibility of the available labour to take up the type of jobs which become available. In general where the labour supply has spare capacity and flexibility, the receiving location would benefit.

The overall extent of the impact on a receiving location is determined by a number of factors, which should be carefully assessed when considering the choice of location. They include the size of the area concerned, and its industrial structure; the likely housing market effects; and, most importantly:

- €# the type of jobs imported;
- €# the number of jobs imported;
- €# the spare capacity in local labour market; and the private sector job displacement (as defined below).

We concluded that the receiving location *will* benefit if public sector pay can become sufficiently flexible, so that it is not out of line with local pay. This is because fewer private sector jobs will be lost as a result of the increase in public sector jobs.

The nature of the posts relocated will have a bearing on the wider benefit for the receiving region. Broadly, the more senior the posts involved, the greater the economic benefit to the receiving location:

- €# Higher-level staff tends to be better paid and are therefore likely to spend more in the area, creating more wealth.
- €# Higher-level staff are more geographically mobile; that is, they are more likely to move with a relocated position and/or be based outside the area, and are thus less

likely to be taken from the local pool of labour. This implies less competition for local labour, and fewer private sector jobs lost

- €# 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

We have found evidence that incentives and support will be necessary to encourage senior staff to relocate from London and the South East. One reason for this is the perception that career progression will be limited. We consider that regional clustering of Government and wider public sector functions might make it easier to relocate more senior employees, as it would offer enhanced career opportunities. The economic impact of this is complex: on the one hand clustering of senior posts should not result in problems associated with over-heating because higher-level staff are less likely to be recruited locally, driving up local pay rates – they will probably move with their job. But on the other hand, because clustering implies that a greater number of people will be relocated to a single area, it may also mean that there would be greater demand for staff relative to supply, driving up wages and leading to the loss of a greater proportion of private sector jobs.

Public sector relocations can also have longer-term regional implications.

- €# There are less tangible benefits that could promote regional growth. These include the implied boost for skills and investment – two key drivers of regional productivity:

- (i) The impact on investment will be most notable if the relocation involves new building or new IT. Furthermore, wider benefits will result if the new building is part of a regeneration scheme, which may in turn attract private sector investment in property.
- (ii) A higher skilled workforce implies greater levels of innovation, knowledge creation, transfer of skills and thus productivity and economic growth. Public sector relocation could also boost the level of skills in the region if there is good training provision in the department. This will create a flow of learning to the private sector, through networking and the movement of staff between sectors.

- €# If the relocation results in a greater proportion of managerial/professional level positions in the region, there may be broader benefits, such as greater parental involvement in the schools.

- €# It is however possible that longer term growth prospects in the region could be adversely affected if public sector relocations were on a scale such as to crowd out private sector employment, as it is the latter that offers long term growth potential. Again, careful choice of location in the light of the number and type of jobs being moved, and the development of flexible regional pay, would be needed to counter this effect.

Moving jobs out to other parts of the UK is unlikely to have significant negative long-term consequences on the capital itself. This is a consequence of the tightness in the labour and housing markets in London and the city's attractiveness to private investors due to its transport links, its reputation as an international financial and business trading centre, and its general long term economic robustness. Overall, we conclude that over time the benefits that accrue due to the reduction in congestion and over-heating, and the boost to private sector investment encouraged by the slack in the market, will work to offset the reduction in public sector jobs.

The benefits arising from reducing any over-heating in London could feasibly extend to the rest of the UK through its potential impact on monetary policy. A relocation of employment and people from London to an area with a weaker labour and housing market would reduce

inflationary pressures in London, and would thus be seen to reduce inflationary pressures at the UK level. The implications for monetary policy in turn imply lower interest rates for the whole economy all else being equal.

Relocations should be based on a sound business case. That said, it is possible to envisage a scenario in which a decision is sub-optimal for the department because it supports a wider government policy, perhaps linked to a pattern of decentralisation, regional prosperity or to regeneration. If this is the case, then the full implications of this should be made clear, so that the opportunity cost attached to that decision is transparently identified.

Public sector relocation can attract private sector investment into an area. It can also aid the likelihood of successful regeneration of areas with multiple deprivation characteristics, and in this respect, acts as a catalyst for further investment. That is, by providing a guarantee that jobs will be created in the area, the public sector relocation reduces the risk facing potential investors, thus raising the likelihood that they will choose to invest in the area.

2. Multiplier analysis of government relocations

2.1 INTRODUCTION

In this report we assess the regional economic impact of previous relocations. This includes an appraisal of the multiplier effects that may result from relocation, at a regional and UK level.

Our approach is as follows:

- €# Firstly, we introduce a commonly used technique for estimating the economic impact of relocation on an area.
- €# Secondly, we introduce the models that we used to estimate the total impact of two past relocations: the relocation of the Patent Office from Central London to Newport Gwent in the early nineties,¹ and of the Department of Health and Social Services (DHSS) from London to Leeds in 1991.²
- €# We then compare our estimates to those obtained in comparable studies, in particular, those suggested by Hardman.

On balance, our analysis suggests that receiving locations would *probably*, but not *necessarily*, benefit from public sector relocation. But if public sector pay becomes sufficiently flexible (so that it is not out of line with local pay for equivalent grade jobs), the receiving location *will* benefit. The reason for the ambiguity is that there are conflicting tensions beneath the surface; that is, the receiving location will benefit from the spending by the relocated department and its employees on local goods and services, but this will be partially offset by any loss in private sector jobs. The arguments that led to these conclusions are expanded on in this section.

It should be noted that, while economic analysis provides a valuable tool for measuring the quantitative benefits associated with relocation, it will not capture all the qualitative aspects or benefits. For instance, it will not pick up the benefits arising from the resulting improvement in work practices, which are discussed in Part 1 of this report.

2.1 DEFINITIONS

When considering the impact of relocation on an area – regardless of the size of the area – the traditional (economic) measurement tool is *multiplier analysis*. This attempts to measure how many jobs will be created in an area as a result of the relocation, over and above those that have been relocated to the area.³

¹ The Patent Office moved from Central London and South East to Newport Gwent over the period 1991 to 1993. This involved 1,000 jobs and included HQ staff. Six hundred staff were recruited to replace those that did not relocate.

² The DHSS relocated from London to Leeds in 1991. The move entailed the transfer of approximately 2,000 jobs, of which around 1,100 people were recruited locally.

³ While conventional multiplier analysis can be used to measure changes over a short or long period of time, it provides a static measurement, as opposed to a dynamic one. That is, it measures changes at different points in time, and does not take into account changes in trend growth rates.

The overall multiplier can be broken down into a combination of the following impacts:⁴

- i. the additional jobs arising from the relocated firm purchasing goods and services in the area (the indirect effect);
- ii. the additional jobs arising from employees of the relocated firm spending money in the area (the induced effect);
- iii. the resulting reduction in private sector jobs, otherwise known as *displacement*. This occurs because the boost in the number of (generally higher paid) public sector jobs increases local demand for staff and drives up wages, reducing the competitiveness of private sector jobs.

The first impact (i) is referred to as the *type 1 multiplier*, and the combination of the first and second impact (i+ii) is known as the *type 2 multiplier*.

As stated, the last impact (iii), displacement, arises because the increase in demand for staff in the area drives up wages leading to a loss in private sector jobs. The displacement effect also occurs because the public sector staff tends to be relatively highly paid, which further erodes the competitiveness of private sector jobs. Displacement is more of a problem if public sector pay is centralised and therefore employees will be paid more compared to equivalent level private sector positions in the area. In calculating the overall multiplier, displacement is subtracted from the positive impact of (i) and (ii).

Box 1: Multiplier derivation and interpretation

In order to calculate the multiplier, the number of jobs *after* the impact of the relocation is divided by the number of jobs *before* the relocation. Thus, by definition, a multiplier value of 'one' implies no impact on the area concerned over and above the number of jobs relocated. That is, the number of jobs lost due to displacement exactly equals the increase in employment attributable to the indirect and induced effects (as defined above).

If the labour supply is completely inflexible, the number of jobs lost due to displacement will offset any increase in employment attributable to the indirect and induced effects, *and* to the increase resulting from the relocation. This phenomenon is known as complete crowding out, and implies a multiplier of zero. This is, however, an unlikely scenario and, as we will demonstrate, multipliers tend to exceed one.

It is worth mentioning that, at the extreme, multipliers can be negative. This would be an unlikely outcome in traditional multiplier analysis because it is measured in comparative static terms.⁵ Displaced jobs are likely to be private sector jobs, so the increase in public sector jobs relative to private sector jobs because of the relocation can dampen overall growth in a region (beyond the benefits of the initial relocation) as private sector growth rates tend to be higher than public sector. If this happens to a sufficient extent, the number of jobs lost due to displacement, and the impact on employment growth, might be greater than the number relocated plus the induced and indirect effects, implying a negative multiplier. We look at this in more detail in Chapter 3.

⁴ The term multiplier tends to be used inconsistently. While the more widely used definition is that used here (that is, it includes the sum of the indirect effect and induced effect less any displacement), sometimes the displacement effect is excluded from its calculation (thus, overstating the total multiplier effect according to our definition). When referring to the multiplier in this study we will always imply the inclusion of all three effects unless otherwise stated. This is occasionally referred to in the literature as the net multiplier.

⁵ This implies that, while it can identify the impact at different points in time, it does not take into consideration any impact on the growth prospects of a local economy.

2.2 A COMPARISON OF MULTIPLIER ESTIMATES

Hardman (1973) suggests that public sector relocation would result in limited positive benefit for the receiving area. He based his conclusion on a number of arguments. In particular, Hardman states ‘there is little multiplier effect from moving civil service jobs from London to less favoured economic areas’.⁶ According to our research, this does not necessarily hold true in today’s environment.

A survey of relevant literature revealed a definite bias toward the view that relocation is likely to have a positive long-term net benefit on the receiving region. For instance, in their study of the Overseas Development Agency (ODA) relocation to East Kilbride, Ashcroft et al suggest that the local multipliers would be 1.25 in the long run.⁷ Gillespie et al analysed multiplier effects in Scotland, and obtained slightly higher long-run estimates (multipliers up to 1.5).⁸

Similarly, studies by Rhodes et al (1994) and the Enterprise Zone Research (HMSO, 1995) indicate that local multipliers are likely to vary between 1.21 and 1.38. These estimates, however, relate to all sectors. The comparable estimate they obtained for office-based employment only was a multiplier of 1.29.

According to our analysis, there was a fairly substantial net long-run benefit of the relocation of the DHSS from London to Leeds.⁹ In particular, we estimate that the relocation led to the creation of a net 30 per cent more jobs over and above the number initially relocated (implying a multiplier of 1.3).

On the other hand, the net long-run benefit of the Patent Office’s move to Newport was estimated to be neutral (that is, a multiplier of one). In other words, while the relocation may have caused some induced and indirect benefits, these were cancelled out by the displacement effect. There are a number of reasons why the estimated multiplier for Newport is smaller than that for Leeds. These include the relatively small size of Newport, and the fact that the industry make-up of Newport implies that it is less likely to benefit from the local spending of the relocated firm and its staff (and hence, the induced and indirect benefits are likely to be smaller).

Multipliers for smaller areas are necessarily smaller than multipliers for the larger areas in which they are situated. This is because the smaller the area, the more likely a company is to purchase supplies from outside the area. For example, the estimated multiplier for relocation to Leeds will be smaller when considering the multiplier for Leeds alone, than when considering that for West Yorkshire (the broader region encompassing Leeds). This recognises that relocation implies spin-off benefits to areas located near to the receiving location.

For instance, Rhodes et al estimate that regional multipliers will have a value between 1.38 and 1.56, compared with the local area estimates of 1.21 and 1.38. The range of multiplier estimates produced by DETR (October 2000) and HM Treasury EGRUP Guidance (1995) suggests that

⁶ Page 6, paragraph 9.

⁷ They also comment that ‘the employment multipliers derived here are substantially lower than those produced in Ashcroft and Swales (1982a). The latter study estimated local multiplier impacts of the proposed dispersals of the Ministry of Defence (MOD) and the PSA to Cardiff and Cleveland’.

⁸ Gillespie et al used a computable general equilibrium model (CGE) to analyse multiplier effects in Scotland. On the whole, their short-run multiplier estimates were lower than those obtained using conventional input-output models. In the long run, however, the CGE estimates obtained assuming national wage bargaining, and those obtained assuming regional wage bargaining and migration, produce similar results to the conventional input-output models; namely, multipliers for Scotland around 1.5.

⁹ Our multiplier estimates were calculated using input output tables based on National data, regional survey-based data and Flegg-type approximation techniques. More details are available in the Annex.

multiplier values between 1.05 and 1.15 apply at the ‘neighbourhood’¹⁰ level, and between 1.3 and 1.7 at the regional level.¹¹

Table 1 below provides a comparison of these multiplier estimates.

Table 1: Comparison of multiplier estimates in the UK

£#	Author	Year of Study	Relocation	Multiplier Estimate	Type of area
	ONS	1995		1.5	UK Type 1
	Ashcroft et al	1988	ODA	1.25	Local
	Rhodes et al	1994		1.29	Local
				1.38-1.56	Regional
	HMT/DETR	1995/2000		1.05-1.15	Neighbourhood
				1.3-1.7	Regional
	Gillespie et al	2001		0.67-1.5	Regional
	Experian Business Strategies	2003	Patent Office	1	Local
	Experian Business Strategies	2003	DHSS	1.3	Local

2.3 THE INDIRECT EFFECT OF RELOCATIONS

Hardman did not take into account the effects of the department’s purchase of goods and services from businesses in the receiving area (the indirect effect, or the type 1 multiplier) because ‘the non-industrial civil service uses people, office space, forms of communications and very little else (i.e. scarcely any capital equipment)’.¹² In other words, Hardman assumed that the type 1 multiplier of public sector relocations was 1.0.

While this argument may have been true at the time, it is now less relevant at the national level. Requirements for some services, such as ICT, have increased significantly since Hardman produced his analysis. Equally, Departments now outsource many services such as security, property maintenance, and catering, which would have been provided in-house in Hardman’s day. Research is another area where the tendency is more to purchase the expertise of universities and consultants than maintain large in-house capability. The viewpoint is supported by our estimate of type 1 multipliers (or the indirect effect) for public administration and defence in the UK in 1995 (see Table 2). The multiplier (1.51) indicates that the additional departmental spending arising from the creation of around 100 jobs in the sector would result in the creation of an additional 51 jobs. For comparative purposes, Table 2 also reports the estimated type 1 multipliers for other industries.

Table 2: Type 1 multipliers for the UK

Industry	Multiplier
Public Administration and Defence	1.51
Insurance and Pensions	2.08
Construction	2.09
Electricity Distribution	2.21
Forestry	1.39
<i>Source: National Statistics (1995 Input-Output tables)</i>	

The type 1 multipliers in Table 2 are national multipliers. As explained above, local level multipliers will necessarily be smaller than national multipliers. We estimated type 1 multipliers

¹⁰ The term ‘neighbourhood’ suggests an area smaller in size than that implied by ‘local’. The exact definition of what constitutes a ‘neighbourhood’, however, is not clear from the report.

¹¹ These values are based on tables on page 14 of English Partnerships and the Regional Development Agencies Additionality: A Full Guide 17 May 2001.

¹² Page 37, paragraph 2.

for public administration and defence in Newport and Leeds at 1.04 and 1.18 respectively (see Annex 1 for further details).¹³ While these are (necessarily) smaller than the 1.51 estimated for the UK as a whole, they are greater than one (which equates to a neutral effect) as implied by Hardman.

HM Treasury (2000) suggests that industrial multipliers will be of similar magnitude to those suggested by our analysis. They state that ‘evaluation estimates of supply multipliers, in terms of effects on employment in local labour markets¹⁴ have ranged from 1.05 (enterprise zones) to 1.11 (regional enterprise grants)’.¹⁵

Hardman made the point that departments might keep their established suppliers irrespective of their location. Nonetheless, it remains likely that departments will purchase some services from the local area, or contract out services (such as cleaning) to local businesses, and this element dominates the estimated type 1 multipliers. Furthermore, some suggest that public sector suppliers might cluster around relocated activity; indeed, this view was held by several of our public sector interviewees (see Part 1 of this report). If this is the case, the local level industrial purchase of multipliers could be distinctly larger than implied by the above estimates.

2.4 THE INDUCED EFFECT OF RELOCATIONS

Hardman also argues that the employee/ consumer spending multipliers (the induced effects) are insignificant: ‘the proportion of their income which ends up being spent on value added locally, whether on goods or services, is quite small’.¹⁶

Our analysis, however, suggests that consumer-spending effects play a strong positive role in the local economy. This conclusion is supported by various studies, including that undertaken by H.M Treasury (2000). We estimated type 2 multipliers (which take account of both industrial purchases and consumer spending effects) for Leeds and Newport at 1.4 and 1.2 respectively. These are both significantly greater than 1, where an estimate of 1 would imply no impact (positive or negative) on the receiving location.¹⁷

Ashcroft et al support our view that there are likely to be positive effects.¹⁸ In their evaluation of the impact of the ODA dispersal to East Kilbride, they estimate the type 2 multipliers to be around 1.11 (1.25 in the long run) for East Kilbride and 1.19 (1.38 in the long run) for Strathclyde. They also imply that their estimates of the positive effects might be on the low side: ‘the employment multipliers derived here are substantially lower than those produced in Ashcroft and Swales (1982a) for the local multiplier impacts of the proposed dispersal of the MOD and the PSA to Cardiff and Cleveland’.

Results obtained by HM Treasury (2000) also point to significant positive benefits arising from the boost to spending consumer spending. These results suggest that type 2 multipliers would be around 1.16 for local areas and between 1.33 and 1.67 for regional areas.¹⁹

¹³ To approximate the local type 1 multipliers, we used Flegg and Webber’s (1996) approximation techniques (see Annex for further details).

¹⁴ In particular, travel to work areas (TTWA) or equivalent

¹⁵ They also state, ‘estimates above that range should be supported by (i) an analysis of the activities covered; (ii) input-output analysis with the assumptions carefully set out’. (See HM Treasury (2000), page 27)

¹⁶ Page 39, paragraph 9

¹⁷ The techniques we used to estimate local input-output tables (see Annex for more details) enabled us to estimate local spending outside the receiving area, and hence, the induced multiplier effects.

¹⁸ ODA Dispersal to East Kilbride: An Evaluation –ESU research paper – B. Ashcroft, D. Holden, J.Smith, K. Swales

¹⁹ Page 27,28 (consultants calculations of indirect and induced figures combined; $1.05*1.1=1.155$ and $1.11*1.2=1.33$ and $1.11*1.5=1.665$)

2.5 DISPLACEMENT AND OTHER CONSIDERATIONS

The increase in (generally higher paid) public sector jobs, in an area resulting from public sector relocation, implies an increase in demand for local staff. This will drive up wages, which will (further) reduce the competitiveness of private sector jobs resulting in a reduction in private sector jobs. This phenomenon is known as displacement, and it is a negative effect of public sector relocation.²⁰ Thus, while the receiving location will benefit from the local purchase of goods and services by the relocated department, and from the spending of its employees, this benefit will be partially offset by any displacement.

Hardman held the view that relocation had little effect on unemployment; in other words, he thought displacement was substantial. This stemmed from his assumption that people already employed in other industries would fill the vacant relocated positions. He states that '[the relocated jobs] main effect (and certainly their main direct effect) is to attract workers away from other employers'. In drawing this conclusion, he also made the assumption that the unemployed cannot always fill the vacancies that arise.

Hardman also argued that many of the jobs will be taken by 'unemployed women who do not register as unemployed',²¹ and that 'married women are especially likely not only to be suitable for office work but are also likely to remain unemployed without migrating simply because wives stay with husbands and there is nothing to prevent the situation arising where the husband is in a job while the wife is left without any appropriate employment opportunities for prolonged periods'.²² Hardman's point in making these statements is that while the circumstance of women may have changed, the change will not reflect in unemployment numbers.

We think that much of Hardman's argument has lost its relevance over the last 30 years. This is not to say that Hardman's assumptions about displacement are completely obsolete - they are not. Indeed, it is still relatively easy to find instances that support elements of his conclusions. For instance, according to one company's submission for the purposes of this study, 'potential impacts on our company [of a public sector relocation to their location] include increased staff turnover, higher recruitment costs, longer recruitment cycles, and salary and benefit inflation'.

But on the whole, Hardman's conclusions about women, and that there is unlikely to be a significant impact on unemployment, are no longer valid. This is supported by English Partnership (2001), who cite 40 per cent of vacancies being filled by unemployed people in (fairly deprived) local areas.²³ Hardman's view that 'office jobs are mainly for women who do not register as unemployed' is also outdated.

There are additional side issues worth mentioning here. Firstly, the benefit to an economy is best reflected in employment numbers, rather than unemployment. Demonstrating this, the government targets are now more likely to be framed in terms of increasing employment rather than reducing unemployment. And secondly, even where commuters fill the jobs (so that local area employment/unemployment statistics may not reflect the change), there is still a benefit somewhere. Further, when someone moves into the area to take the job, having previously been employed elsewhere, there could still be a net benefit to the UK (we will elaborate more on this in Chapter 3 below).

Hardman's conclusion that most jobs will be filled by people moving away from other sectors does not appear to hold true to the extent he implies. While displacement is likely to play a role,

²⁰ In macroeconomics, *displacement* is also referred to as *crowding out*.

²¹ Page 38, paragraph 5

²² Page 38, paragraph 5

²³ It was also quoted by Stephen (1975, pp 112-113), that in 'the Post Office's move to Durham, where 30 per cent of local recruits were previously in non-clerical employment. The jobs thus vacated may well have been suitable for those previously registered as unemployed.'

not all jobs will be filled by staff moving from other sectors. This is supported by our analysis of Leeds and Newport, which suggests that the number of jobs displaced will be significantly lower than the number of relocated jobs. More specifically, our estimates suggest that around one fifth of all positions relocated to Newport were filled by people moving from existing employment in another sector. Our comparable estimate for Leeds was 17 per cent.²⁴

Our literature review supported our view that the number of private sector positions displaced as a result of the increase in the number of public sector positions will be significantly less than the increase in the number of public sector positions. According to the Department of Trade and Industry (1995), local area displacement of private sector jobs would average around 40 per cent of the number of relocated public sector jobs. Research by Rhodes et al (1994) and the Enterprise Zone research (HMSO 1995) suggests that displacement would be lower still: between 12 per cent and 22 per cent of the increase in the number of public sector jobs.

The extent of the displacement will depend on a number of factors. The most significant of these are as follows:

- the types of jobs being created
- the receiving location
- the flexibility of the local labour supply
- the extent to which public sector pay is brought in line with public sector pay.

One argument is that the extent of displacement relative to the number of jobs relocated increases with the number of the jobs relocated. That is, it depends on the number of relocated jobs relative to potential supply in the area (including the unemployed, inactive and commuters). This is a potential downside of clustering: because it increases the number of jobs going to a single location, if there is insufficient flexibility in local labour supply, this could increase the proportion of jobs lost through displacement. Potential upsides of clustering are addressed below.

The occupational mix of the relocated jobs also impacts on the extent of displacement. This is because higher-level staff are more geographically mobile. Thus, they are more likely to move with a relocated position and/or be employed from outside the area, and are thus less likely to be taken from the local pool of labour. This implies less competition for local labour, and fewer losses among private sector jobs. Further, administrative and clerical pay rates 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.

Staff, however, are the most difficult to move away from London and the South East. Demonstrating this, for instance, following the relocation of the head office of the Manpower Services Commission, it was observed that vacant senior-level positions generally attracted considerable less interest than comparable jobs in London. One reason for this is the perception that career progression will be limited. This highlights one of the advantages of clustering, which is the ability of clusters to attract and retain high quality staff. That is, regional clustering of departments would make it easier to relocate more senior employees, as it would enhance career opportunities.²⁵ (This point is discussed further in Part 1 of the report, Chapter 5) Indeed, the relationship between clustering and the occupational mix of positions could be viewed as symbiotic. That is, the more senior the jobs, the less likely clustering would be to result in problems associated with over-heating, because, as stated above, senior staff are more likely to move location for a job, implying less competition for local staff.

²⁴ These results were based on our modeling exercise, rather than employer surveys. See Annex 2 for further details.

²⁵ Another advantage of clustering is the potential for realising administration economies.

Box 2: Clustering²⁶

The benefits associated with clustering and how they might apply to the public sector are summarised as follows:

- (i) Knowledge spillovers: Informal networks and the movement of staff enhances the transfer of knowledge, skills and best-practice methodologies.
- (ii) Market size and linkages: Clusters of departments and/ or functions provide more incentive for business services to develop in the area (such as skills-based consultancies, IT support and so on) in essence, creating a supportive environment for growth of enterprise, innovation and skills.
- (iii) Sophisticated or 'thick' labour markets: Clusters imply the availability of a large pool of labour with relevant skills. Similarly, it is a lot easier for workers to find a job in the area when there are many firms demanding their skills.
- (iv) Because of the uniqueness of the public sector there are other benefits relating to economies of scale that may be unique to them, such as the potential for policy synergies, joined up delivery, and possible procurement savings.

Gillespie et al argue that with regional wage bargaining, 'any expansion in labour demand is accompanied by a degree of crowding out in the local labour market, primarily through a deterioration in the competitiveness of regional export demand.' Table 3 summarises their multiplier estimates for Scotland as a whole (after ten periods). Interestingly, they find that their long-run estimates with national wage bargaining are similar to those with regional wage bargaining and migration. This is because the more migration there is the more flexible is the labour supply in the long run (or the less the local labour supply is constrained), thus offsetting that portion of displacement attributable to regional wage bargaining.²⁷

The Gillespie et al models incorporate the Local Authority multiplier. Thus, the overall results are based around the assumption that, in the long run, additional population will impact on local authority employment.²⁸ That is, the results assume that the more central government posts are relocated to the area, the more people will live in the area. This in turn implies that the local authority will receive more money, and hence, create more jobs in public sector support services.

Table 3: Multipliers estimated by Gillespie et al (2001) including displacement effects

Model	Multiplier
Input-output model	1.56
Input-output model with migration	1.60
CGE:	
With national wage bargaining	1.51
Regional wage bargaining	0.67
Regional wage bargaining and migration	1.21
<i>Source: Gillespie et al</i>	

All of the estimates referred to above point to increases in employment rather than decreases in unemployment. In most cases, we believe that the effect on unemployment in an area will be far lower than the impact on employment. This is because new jobs can be filled not just by the unemployed, but also by new in-migrants, new in-commuters and by those who were previously economically inactive.

²⁶ See *Productivity in the UK: 3 – The Regional Dimension*, HM Treasury (2001), and Fujita, Krugman and Venables (1999).

²⁷ Although as can be seen from the table, even after 10 periods the Computerised General Equilibrium (CGE) model with regional wage bargaining and migration has a lower multiplier.

²⁸ The Experian Business Strategies model also considers the long run effects on employment in the education and health sectors.

The assumption used in existing government evaluation studies (Alexander and Whyte 1995) is that when the population is fixed, 75 per cent of new jobs will be taken by the unemployed and the remainder will stem from increased local labour market participation. But this refers to the relative impact of new jobs on employment and unemployment, rather than to the displacement of existing jobs.

3. Long-term considerations

Much of the debate around the local economic impact of government relocation revolves around the displacement issue. In other words, to what extent will new jobs created by the relocation itself, and any boost from purchases from local industry by either government or consumers, be offset by jobs lost because existing employers have to pay higher wages to both recruit and retain staff. The analysis of multiplier models described in the previous section tends to show that the number of jobs created by purchases from local industry by either government or consumers will outweigh any displacement effects (i.e. that the multiplier will be greater than one).

One problem with this kind of multiplier analysis is that it only looks at the *immediate* impacts of the relocation. Another important consideration is the impact of public sector relocation on employment growth in an area. This is because public sector relocation involves the displacement of private sector jobs by public sector jobs. As employment growth tends to be higher in the private sector, the increase in public sector jobs relative to private sector job can dampen overall employment growth. (Indeed, the relocation of a government department to a region will only lead to significant employment growth in a region if it forms part of a clustering process, as referred to elsewhere in this review).²⁹

Both Henley and Thomas (2000), and Experian Business Strategies have undertaken work that, although inconclusive, imply that the impact of the relocation on the number of jobs in the region will be positive, but is likely to be less than the number of jobs initially relocated. Henley and Thomas (2000) analysed the relationship between public and private sector employment growth, but only found a weak association between them. Similarly, the work undertaken by Experian Business Strategies for this review (see Annex 2) found that there was a small negative but statistically insignificant correlation between the two. On a regional level, according to the Henley and Thomas' (2000) results, there was more evidence of a negative effect in Scotland than in other regions. The best evidence of a positive relationship was in the East of England and the South East. Overall, there was a significant positive relationship between total employment growth and the growth of public administration but when looked at for individual regions it was only significant for the East of England and the South West. At face value, this analysis appears to contradict much of the evidence from the multiplier models discussed in the previous section. Some care, however, is required in interpreting the results. It is possible that past public sector employment growth has been directed towards areas where the private sector labour market was weak. This would explain the lack of a significant positive correlation between public and private sector employment growth without invalidating the results of other multiplier studies. This interpretation suggests that the causality suggested by Henley and Thomas is actually the other way around (i.e. weak private sector labour markets attract higher than average public sector employment growth). We also need to appreciate that crowding out, where it does occur, is usually linked to the misalignment of public and private sector pay in the receiving location. Looking to the future a key part of relocation policy is likely to involve the better alignment of private and public sector pay, thus mitigating any crowding out effects.

In a long-term context it is also worth considering the potential impact of relocation on the five drivers of productivity growth identified by the government (HM Treasury, 2000). These are: skills, investment, innovation, enterprise and competition.

²⁹ There may also be longer-run benefits if suppliers to the relocated function move closer to it over time.

- i. While the potential impact on the local level of innovation, enterprise and competition is unclear, it can be seen that they might benefit from the involvement of civil servants in the local community. This does, however, depend upon the type of jobs that are relocated, and thus needs to be considered on a case-by-case basis. In Sheffield, for instance, following the relocation of the head office of the Manpower Services Commission, direct involvement of civil servants in local learning initiatives has ‘strengthened action on the ground and provided practical experience for policy makers’³⁰. Further, if the relocated positions involve scientific research and /or development, the relocation would encourage innovation at the regional level (and, for instance, could help to promote the formation of an innovative milieu).
- ii. The boost to investment will be more significant if the relocation involves new building or new investment in IT. Further, there could be wider benefits if the new building is part of a regeneration scheme that could lead to additional private sector investment in property. According to one property industry analyst, a public sector investment can provide a major boost to the private sector property investment through its impact on the perception of the area by investors³¹.
- iii. A higher skilled workforce implies greater levels of innovation, knowledge creation, transfer of skills and thus productivity and economic growth.³² Public sector relocation could boost the level of skills in the locality in a number of ways. Firstly, the level of skills in the region will benefit if there is good provision of training in the department. This is because there will be an inevitable flow of learning to the private sector through networking and the movement of staff between sectors. There is some evidence of this movement between sectors: for instance, on average, between 1999 and 2002, 6 per cent of managers, 7 per cent of professionals and 6 per cent of associate professionals left public administration to work in other sectors each year. Secondly, local skill levels will benefit if the relocation leads to an expansion in local skills-based consultancies and small businesses. This has, for instance, been observed in Sheffield following the relocation of the head office of the Manpower Services Commission. Further, the boost to professional and/or managerial staff in an area is likely to raise the performance of local schools through greater parental involvement.

³⁰ Hugh Sharp, Core Cities.

³¹ Consultation with Stephen Hollowood, Head of Regeneration at GVA Grimley.

³² See *Productivity in the UK: 3 – The Regional Dimension*, HM Treasury (2001), p 15.

4. The impact on the whole of the UK

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Both Hardman and Ashcroft et al point out that the benefit in the recipient locality ‘does not represent an increase in economic activity for the economy as a whole. There will be negative impact effects on the donor region (in this case London and the South East)’.³³ These seem, however, to be little more than casual remarks that indicate that assessing the impact on London was not a priority of the studies in question.

While the assumptions underpinning the Hardman study may have applied 30 years ago, times have changed; in particular, as discussed in Chapter 2, regional disparities have grown, and overheating in the South of England is now more of an issue. Indeed, there are several ways in which the net impact on the UK economy might not be zero. These are outlined below.

*Potential negative*³⁴:

- i. If the relocation were not economically efficient in its own right - that is, if the business case for moving is not valid – it will ultimately need to be financed and thus implies either higher taxation or lower government spending elsewhere for a given level of borrowing. Both have the potential to adversely impact on the UK economy.

Potential positive:

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- ii. Many factors indicate that the removal of, say, 20,000 public sector jobs from London is unlikely to have a significant long-term negative impact. One of the early rationales for relocating out of London was to reduce congestion in the capital. In this scenario, the reduction in public sector jobs in London implies additional benefits for London due to the implied reduction in congestion.³⁵ More recent concern has centred on the effects of over-heating in London (and the South East). This is a broader concern than just congestion or the pressure on London’s physical infrastructure. For instance, it also encompasses concerns about the tightness of the housing and labour markets. (The extent of the tightness in the labour supply in London and the South East relative to the rest of England is apparent in figure 1 below.) 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.³⁶ That is, the benefits that accrue due to the reduction in congestion and over-heating, and the boost to private sector investment encouraged by the slack in the market, will work to offset the reduction in public sector jobs (at least in the long term).
- iii. Further to the above, the benefits from civil service relocation out of London will also benefit the public sector that remains in London. Competition for both high skilled and administrative staff in London means the public sector finds it difficult to recruit and retain high quality staff in the capital, and this has a negative effect on service delivery.

³³ Ashcroft et al (page 43 pp 5.9)

³⁴ Conventional multiplier analysis suggests that private sector job creation in London (as a result of public sector relocation reducing the demand for labour, and thus producing lower wages) is likely to be lower than the private sector jobs lost through higher wages in the receiving location. But this argument is countered by the ‘overheating argument’, (see point(ii)), and in any case diminished in the face of the scale and timetable of the relocations proposed.

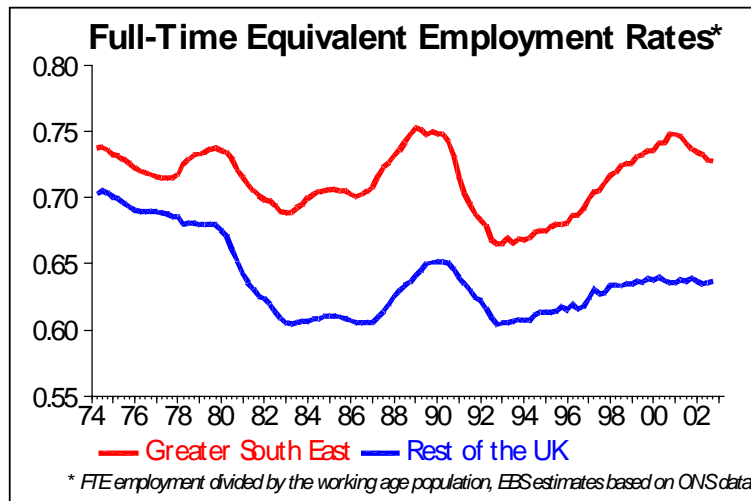
³⁵ While it is acknowledged that pockets of deprivation and unemployment exist in London, it is unlikely that the relocated departments and/ or functions will come from these areas.

³⁶ The Greater London Authority has expressed a similar view in their response to the Lyons review.

Reducing this level of competition reduces the pressures on those services that have to remain based within London (and the South East).

- iv. The benefits arising from reducing any over-heating in London could feasibly extend to the rest of the UK through its potential impact on monetary policy. The focus in macro and regional economics recently has been on the effects of over-heating in London (and the South East). The focus implies that UK monetary policy targets overheating in order to avoid inflationary pressures in these regions, rather than in the UK as a whole. This implies that a relocation of employment and people from London to an area with a weaker labour and housing market would reduce inflationary pressures in London, and would thus be seen to reduce inflationary pressures at the UK level. The implications for monetary policy in turn imply lower interest rates and a lower nominal exchange rate, all else being equal. According to this argument, regional disparities in unemployment rates (amongst other economic variables, including house-price inflation) are an important determinant of UK inflation, (and thus other national indicators)³⁷. (See Annex 2 for further explanation of the economic theory behind this argument.)

Figure 1: Regional Disparities in Employment Rates



To consider the extreme case, if there are absolute constraints to employment in London imposed by the transport system and housing supply, then any loss of employment could be matched by new private sector jobs. This would imply that civil service jobs absolutely crowd out private sector jobs in London. This scenario, however, can only be viewed as a long-term phenomenon, because from time to time there are weak periods in London’s labour and property markets, and in the demand for transport. Nonetheless, believing that absolute displacement holds in London, even in the long term, requires the belief that there is something special about London’s economy, such as its comparative advantage in the supply of internationally traded financial and business services, which would ensure its long-run buoyancy, regardless of what happens to civil service employment – though this is not too far from what is envisaged in the Mayor’s economic strategy.

Even without going into the ins and outs of monetary policy, concerns with the problems associated with localised overheating and capacity constraints in London and the South East, and with regional disparities in the labour market, suggest that relocation may have more positive impacts on the UK economy as a whole than Hardman suggested. These will be more

³⁷ Whadhawani (1999), Jackman et al (1991).

apparent during times of strong growth in London and the South (such as the late nineties) than now, because this is when the problems associated with overheating are greater. However, as elaborated on above, the long-term view implies that moving, say, 20,000 public sector jobs out of London is unlikely to have any negative consequences, implying the UK-wide benefit is likely to be positive over the long-term.

5. Wider Regional Effects

The transfer of civil services jobs from London to areas suffering from higher unemployment than in the south of England as a whole has obvious attractions from a regional policy perspective. There are also a number of arguments for why relocation may promise broader economic benefits for the receiving region than conventional multiplier analysis might suggest. These are outlined below.

5.1 THE SOCIAL AND REGENERATIVE IMPACT OF RELOCATION

Public sector relocation can attract private sector investment into an area. For instance, if insufficient large-scale demand constrains regional property investment, or if regional property markets are too small to offer sufficient liquidity to investors, public sector relocation into the area will make it more attractive to investors. This will then create benefits in terms of the lower rental costs for private sector companies in the region and the regeneration benefits of new construction.

Public sector relocation can also aid the likelihood of successful regeneration of areas with multiple deprivation characteristics, and in this respect, acts as a catalyst for further investment. That is, by providing a guarantee that jobs will be created in the area, the public sector relocation reduces the risk facing potential investors, thus raising the likelihood that they will choose to invest in the area.

In addition to the above, full realisation of the potential benefits to the receiving community will be more likely if an explicit acknowledgement of the need to aid the regeneration of the receiving community is incorporated in the relocation strategy. On this point, Tim Preston, senior regeneration consultant at Bucknall Austin says the following:

“At a simple level the confidence generated by public sector investment, and the spend that is generated from the staff and/or visitors to the development, is a valuable asset to the on-going regeneration of an area. However, the real challenge is to ensure the local community benefits in full from the investment made. This requires considerable effort to put in place a support infrastructure to ensure that local people can obtain employment, small local businesses can secure supply contracts and other community benefits filter down. Only through this approach will a decision to relocate a public sector resource make a lasting and sustainable impact within its new surroundings.”

Box 3: Case study evidence of the role of public sector investment in regeneration³⁸

Case 1: Leith Docks, Edinburgh

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 sq m 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.

Case 2: Eastside area, Birmingham

In Birmingham, the Council adopted a major regeneration strategy for the eastside area, a 49 hectare swathe of underused land situated immediately adjacent to the existing commercial heart of the City. This was promoted by the regional development agency, Advantage West Midlands, Birmingham City Council, British Waterways and others, as a major development opportunity. Bucknall Austin provided strategic advice to Advantage West Midlands on the delivery options available to the public sector to maximise the regeneration potential of the eastside area.

As part of this strategy, Birmingham City Council commissioned Richard Rogers to design a new central Library as a key component of the regeneration strategy. The library will be 4,000 sq m in size and will provide a range of learning, cultural and social facilities as a centrepiece for the eastside development.

The existing library in the city centre, attracts over 5,000 visitors a day and it is the re-

5.2 THE NATURE OF THE RELOCATION

The particulars of the relocation will have a bearing on the wider benefit for the receiving region. This point applies in particular to the occupational make of the jobs relocated, and whether the relocation addresses any existing imbalances. More explicitly:

- i. An increase in managerial and professional jobs might bring about softer improvements in the local economy. For instance, there may be an improvement in schools through the greater parental involvement associated with managerial and professional parents.
- ii. The north as a whole has relatively fewer higher-level public sector jobs. This could be disadvantageous for the north, if, as is widely conjectured, public sector jobs provide a stable, well-paid base for the local economy (displacement and competitiveness effects notwithstanding).
- iii. Senior managers and professionals are generally more mobile than administrative and clerical grades. Thus, people are more likely to either move with the jobs or move into the region to fill these jobs, indicating that the relocation of these higher-level positions implies less competition for the supply of labour in the receiving region.

³⁸ These case studies were provided for the purpose of this project by regeneration consultants, Bucknall Austin.

This in turn implies that the relocation of these relatively senior level positions is less likely to result in the displacement of existing jobs.³⁹

- iv. Senior managers and professionals are likely to earn more than administrative and clerical staff. Thus, the relocation of higher-level functions will bring higher incomes to the receiving area implying a greater boost to local consumer spending (or, a great-induced *effect*). It is conjectured that senior managers and professionals are more likely to commute into the immediate locality. If this were the case, while the benefit to the immediate locality will be lower than if they did not commute, the impact on the broader area would not be affected.
- v. While, as outlined in points (i) to (iii) above, public sector jobs imply obvious benefits to a region, an awareness of the sustainability of the concentration of public sector jobs needs to be maintained. That is, it is necessary to ensure that the region is not over exposed to, for instance, public sector spending cuts or major re-engineering such as outsourcing.

5.3 RELOCATION AND REGIONAL DISPARITIES IN THE OCCUPATIONAL MIX OF THE PUBLIC SECTOR

Practicalities imply that an even distribution of occupations across the regions will be neither feasible nor optimal. Nonetheless, as demonstrated in Chapter 5.2, greater benefits are associated with higher-level public sector positions. Thus, from a regional policy perspective, there may be potential benefits in addressing any imbalances in the distribution of public sector occupations across the regions, notwithstanding operational and efficiency constraints.

To enable us to compare the concentration of public sector occupations in the Greater South East (London, the South East and the East of England) compared to the rest of England Experian Business Strategies undertook the following analysis.

Box 4: The degree of concentration of public sector jobs

The degree of concentration of public sector jobs is defined as public sector employment in the region divided by the working age population in the region, all divided by the equivalent figure for England as a whole – or, the concentration coefficient. A concentration coefficient of one implies a concentration of public sector jobs equal to the national average.

With regards to the lack of public sector employment in the regions, Table 4 shows what we have termed the degree of concentration of public sector jobs in different parts of the county. For the purposes of Table 4, we have split England into two parts – the Greater South East on the one hand and the remaining regions on the other. This is partly for clarity and partly to overcome issues related to commuting within the Greater South East.

³⁹ However, as pointed out earlier, senior staff are the hardest to persuade to relocate out of London due to, for instance, the perceived negative implications for career prospects. This implies that better career structures, communication and a change in culture may be necessary to persuade senior staff to relocate. More discussion on the point can be found under the *careers* heading in Chapter 5 of Part 1.

Table 4
Concentration Coefficients⁴⁰

	Greater South East	Rest of England
Public Admin only		
Managers and Senior Officials	1.23	0.83
Professional Occupations	1.40	0.70
Associate Professional and Technical & Skilled	1.01	0.99
Administrative and Secretarial Occupations	0.84	1.12
Other	0.95	1.04
Total	1.01	0.99
Public Admin, Education & Health		
Managers and Senior Officials	1.17	0.87
Professional Occupations	1.08	0.94
Associate Professional and Technical & Skilled	0.94	1.04
Administrative and Secretarial Occupations	0.92	1.06
Other	0.88	1.09
Total	0.97	1.03
Memorandum Items		
Share of Employment in Public Admin & Defence	0.43	0.57
Share of Employment in Public Admin, Education & Health	0.41	0.59
Share of All Employment	0.44	0.56
Share of Working Age Population	0.43	0.57

Source: *Labour Force Survey, Summer 2002*

As can be seen in Table 4, there is a greater proportion of public administration jobs (including local authorities) relative to working age population in the Greater South East compared to the rest of England (*i.e.* the Greater South East has a concentration coefficient of 1.01, compared to 0.99 for the rest of England). But this scenario is reversed if we include those employed in education and health in our definition of the public sector (*i.e.* the Greater South East has a concentration coefficient of 0.97, compared to 1.03 for the rest of England).

It is, however, striking that managerial and professional jobs are concentrated in the Greater South East while all other occupations are concentrated in the rest of England, even when we look at employment in public sector including education and health. This shows that if there is any inequality in the regional distribution of public sector jobs, it is in the better-paying managerial and professional occupations rather than in all occupations. Thus, from a regional policy perspective, we should be seeking a better regional distribution of managerial and professional jobs. Unfortunately, as is pointed out elsewhere in this report, these are the most difficult jobs to relocate. Nonetheless, as argued in point 5(iii) above, they are also less likely to lead to the displacement of existing jobs.

⁴⁰ The concentration coefficient is a measure of the degree of concentration of public sector jobs in different parts of the county. This is defined as public sector employment in the region divided by the working age population in the region all divided by the equivalent figure for England as a whole.

ANNEX 1 – CASE STUDY NEWPORT AND LEEDS RELOCATION

The modelling process adopted for this study is based around the use of input-output tables and the associated multipliers.

Official estimates of the input-output tables are published for the UK, Wales and Scotland. Local input-output tables could be put together from survey data but the cost of the surveys is usually prohibitive. As an alternative, we can approximate the industry-purchase part of the table using a technique developed by Flegg and Webber.⁴¹ This technique uses information on the industrial structure of an area, and at the UK level, to infer what the coefficients might be. (We use data from an Experian Business Strategies product – *Making Sense of the Annual Business Inquiry* – to establish the industrial structure of the local economy.) Flegg and Webber’s formula has been calibrated against published data for Scotland to test the robustness of the methodology.

Step-by-step guide to the modelling process

- €# We estimate the direct impact of the relocation in terms of jobs created in Newport/Leeds and the average wage of those employees.⁴²
- €# Of people taking up the jobs, we estimate the number who live in Leeds/Newport and the number who commute in from outside.⁴³
- €# We then use the input-output table to generate the local-level multiplier effects. Local multipliers will be affected by the size of the area, local linkages, and levels of in-commuting and salaries. For example, the larger the area, the greater the multiplier due to less leakages.
- €# Model displacement – when new jobs are generated in a local area, it is likely to cause wage pressures and lead to the displacement of jobs in other industries. We have not incorporated product market displacement because the public sector organisations we have looked at are likely to be ‘exporters’ from the local area.
- €# We estimate the number of jobs taken by employees relocating from London and the number taken by local people.
- €# The greater the population in the local area, the greater the long-run benefits generated by the model in terms of local authority jobs created.

⁴¹ Flegg, A, Webber C (1996), Vol 4 Issue 1 *Regional Studies*.

⁴² Currently assumed to be the industry average

⁴³ Commuting is currently assumed to be zero

Results

	Leeds	Newport
Short-run direct jobs	2,000	1,000
Recruited from local residents	1,100	600
Transfers to local area	900	400
In-commuters	0	0
Short-run indirect jobs	370	40
Short-run induced jobs	500	200
Jobs displaced	470	250
Type I multiplier (short-run, excluding displacement)	1.2	1.0
Type II multiplier (short-run, excluding displacement)	1.4	1.2
Long-run multiplier (excluding displacement)	1.5	1.3
Long-run multiplier (including displacement)	1.3	1.0
<i>Source: Experian Business Strategies augmented local input-output model</i>		

Annex 2:

Glossary

GLOSSARY 1: INPUT-OUTPUT MODEL

Every economy is composed of a number of interlinked relationships. An input-output model quantifies these relationships. That is, it is a table that shows who buys what from whom in the local economy. Figure 1 demonstrates what the model looks like. In particular:

- €# The ‘Cs’ indicate what one sector buys from another. For example C_{ij} is what industry i buys from industry j .
- €# As well as selling to other industries, industries sell to final demand in the local area. Final demand includes consumer spending and ‘other’ final demand, or we have called ‘autonomous spending’, for instance, public spending, capital formation and stock building.
- €# As well as spending locally, industries may import from elsewhere. This is represented by the ‘imports’ row in the model. The smaller the economy, the larger the share that is likely to be taken by imports.

To facilitate local economic analysis, we have added a number of factors that are not usually found in input-output tables – these are shown in the bottom half of the table.

Figure 1: The input-output model

	Industry 1	Industry 2	Industry 3	Industry 4	Industry 5	Industry 6	Consumer spending	Autonomous spending
Industry 1	$C_{1,1}$	$C_{2,1}$	$C_{3,1}$	$C_{4,1}$	$C_{5,1}$	$C_{6,1}$	$C_{7,1}$	$C_{8,1}$
Industry 2	$C_{1,2}$							
Industry 3	$C_{1,3}$							
Industry 4	$C_{1,4}$							
Industry 5	$C_{1,5}$							
Imports	$C_{1,6}$							
Profits	$C_{1,7}$							
Employment incomes	$C_{1,8}$							
Total employment	E_t							
Employment of locals*	E_l							
Average earnings	W_l							
Employment income of locals	Y_l							
<p>Notes:</p> <p>* the employment of local people in the local economy (i.e. not including out-commuters).</p> <p>For any industry:</p> <p>Gross value added (or GDP) equals profits plus employment incomes</p> <p>Total employment equals the employment of locals plus the employment of in-commuters</p> <p>The employment income of locals equals the employment of locals multiplied by average earnings in the industry</p> <p>Total gross value added or total employment in the industry equals the sum of gross value added or employment for each industry</p> <p>Total income from employment in the local area equals the income from employment of locals as defined above plus the employment incomes of out-commuters</p>								

MULTIPLIERS

In order to calculate the multiplier effect using an input-output model/table you need to calculate the continual round effects (see below).

$$I + A + A^2 + \dots$$

The terms of this infinite series, post-multiplied by the vector of the impact, correspond to the requirements in the different rounds set out below. (Thus Ie represents the production needed to meet the impact; Ae represents the production needed to provide the inputs into the direct production; A^2e represents the production needed to provide the inputs into the inputs; and so on indefinitely). Hence the sum of these terms gives us the multiplier.

A matrix inverse of the form $(I - A)^{-1}$ is termed the matrix multiplier in economics⁴⁴ and it is equal the sum of the above series. Where $I = nxn$ identity matrix and $A = nxn$ input/output matrix

Type I Multipliers:

These capture the multiplier effects due to industries purchasing from other industries within the local area.

Type II Multipliers:

These capture both the multiplier effects due to industries purchasing from other industries within the local area and from the associated wages being spent by consumers in the local area.

Displacement:

Displacement refers to any change in employment elsewhere in the economy, in addition to the direct job creation effect. Displacement is sometimes referred to as “crowding out” of jobs.

⁴⁴ In more detail

c_{ij} = value of input consumed from sector i for each unit of production in sector j .

d_i = value of the impact on production of sector i

for sectors $i=1,2,\dots,n$ we get equations

$$x_1 = c_{11}x_1 + c_{12}x_2 + \dots + c_{1n}x_n + d_1$$

$$x_2 = c_{21}x_1 + c_{22}x_2 + \dots + c_{2n}x_n + d_2$$

$$x_3 = c_{31}x_1 + c_{32}x_2 + \dots + c_{3n}x_n + d_3$$

$$\vdots$$

$$\vdots$$

$$x_n = c_{n1}x_1 + c_{n2}x_2 + \dots + c_{nn}x_n + d_n$$

Which in simpler notation:

$$\begin{array}{c|cccc} x_i & \begin{matrix} n \\ j \end{matrix} & c_{ij} & x_j & d_i \end{array}$$

For $i=1,2,\dots,n$

or using vector notation $x=Cx+d$ where C is a $n \times n$ matrix and d is the impact vector

To solve this equation

$x-Cx=d$ recall that $x=Ix$ for any vector x . Thus

$$(I-C)x=d \text{ or } x=(I-C)^{-1}d$$

This holds providing Leontief property holds:

If C has nonnegative entries and the sum of each of its columns is strictly less than one, then

$(I-C)^{-1}$ exists and has non negative solutions.

GLOSSARY 2: SOME THEORY BEHIND THE RELATIONSHIP BETWEEN INFLATION AND UNEMPLOYMENT

Macro economic theory often asserts that there is no long-run trade-off between boosts to spending and the level of unemployment. This is often described by saying that the long-run Philips Curve is vertical. The Philips Curve describes the relationship between unemployment and inflation. The vertical Philips curve says that a boost to demand will eventually result in higher inflation and no change in unemployment. The finding that relocation can increase employment/reduce unemployment at both the local and national level is not inconsistent with this. A vertical Philips Curve at the national level does not imply a vertical Philips Curve at the sub-national level. As we have argued above, there is considerable evidence that the multiplier is almost certainly greater than zero at for receiving locations. At the macroeconomic level, relocation frees up resources in the capacity constrained London economy while moving them to areas with spare capacity (in housing and infrastructure, not just labour markets) in the north. This is the equivalent of a shift to the left in the Philips Curve at the national level. Or in other words, lower inflation for the same (national) level of unemployment (or, increased national capacity).

GLOSSARY 3: AN EMPIRICAL EXAMINATION OF THE RELATIONSHIP BETWEEN CHANGES IN EMPLOYMENT IN PUBLIC ADMINISTRATION AND CHANGES IN EMPLOYMENT IN OTHER SECTORS

This exercise looks at employment data by Local Area Directorate (LAD) and metropolitan district other the period 1983 to 2001 to see if there is any relationship between changes in public administration and defence employment (Division 75 of the Standard Industrial Classification) and changes in total employment, and changes in total employment *excluding* public administration and defence.

The idea is to see if any multiplier effects exist in the aggregate employment data. The danger exists that we may fail to separate cause and effect. That is, areas which have suffered declining employment as a result of an unfavourable starting industrial structure may have been favoured with extra jobs in public administration as a policy response. To correct for any bias caused by the industrial structure we have decomposed total employment growth in each LAD/UAD into two parts using a simple shift-share analysis. One part is equal to what employment in the area would have been in 2001 if employment in each of 30 separately identified sectors grew at the same rate as they did at the UK level. This is a simple measure of the contribution of the initial industrial structure to aggregate employment growth, which we term “the industry effect”. The “local effect” is defined as total employment growth less the “industry effect”. This can be interpreted as employment growth that was related to purely local factors rather than to the initial industrial structure. This analysis looks at the relationship between both total growth and the “local effect” and the contribution of changes in employment in public administration and defence to total employment growth.

The data used are Experian Business Strategies’ estimates of full-time equivalent employment (FTEs). These are based on the Annual Employment Survey and the Annual Business Inquiry for employees and the Labour Force Survey and the Census for the self-employed. Data for 383 LAD/UAD areas are considered in total.

The analysis takes the form of estimating the following equations:

$$e = \eta_8 p + \eta_7 u$$

Where “e” is one of the various measures of employment growth (total, local effect, with and without public administration and defence), “p” is the contribution of public administration and defence to total employment growth and “u” is the OLS residual. For brevity, we just report the estimated t-statistic for η_8 . If displacement/crowding out is less than the impact of any type 2 multipliers than we would expect to see a positive value for η_8 in the equation where employment growth excluding public administration and defence is the dependent variable. In other words there would be evidence that employment in sectors other than public administration and defence grew by more than average in areas of above average public administration and defence growth. If displacement/crowding out exceeded the impact of any type 2 multipliers and the original employment injection (i.e. where there is greater than 100 per cent displacement or crowding out) then the estimated value of η_8 (where total employment growth is the dependent variable) will be negative. The analysis is done for both the country as a whole and for the LADs in each Government Office Region plus Wales, Scotland and Northern Ireland. Results for both the total increase in employment and the “local effect” as described above are shown in Glossary Table A2.1:

Table A2.1 Estimated Impact of Changes in Employment on Total Employment (estimated t-statistics)

	Total Employment Growth		Total Employment Growth Excluding Public Administration and Defence	
	Total Increase	Local Effect	Total Increase	Local Effect
Whole sample	2.70	2.97	-.60	-.26
North East	0.17	0.69	-0.78	-0.35
Yorkshire & the Humber	0.08	-0.01	-0.34	-0.48
East Midlands	1.58	0.80	0.35	-0.56
East of England	2.03	2.57	0.70	1.40
South East	0.78	0.89	-0.61	-0.36
South West	2.54	2.87	1.38	1.74
West Midlands	0.53	0.74	-0.20	.02
North West	1.41	0.10	0.21	-0.73
Wales	1.42	1.43	0.14	0.11
Scotland	0.03	-0.14	-1.40	-1.43

Interestingly, using either our preferred measure of the “local effect” on employment growth of total employment growth as our dependent variable we find little evidence of a significant positive impact on non-public administration jobs except in the east of England and the South West (columns four and five of Table A2.1). There is weak evidence of a negative relationship in Scotland.

The second and third columns of Table A2.1 do, at least, show that increased employment in public administration and defence is associated with employment growth for the area as a whole in most cases, though a significantly positive relationship is absent for many regions. All of this is consistent with a long-run dynamic⁴⁵ multiplier, which is greater than zero but likely to be less than one.

⁴⁵ By dynamic we mean an estimate that takes account of the impact on growth as well as levels.

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