

INDEPENDENT REVIEW OF PUBLIC SECTOR RELOCATION

Interim Report

by

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9 September 2003

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INDEPENDENT REVIEW OF PUBLIC SECTOR RELOCATION

Interim Report

INTRODUCTION

1.1. The Chancellor and Deputy Prime Minister have invited me to lead an independent review to examine the scope for relocating a significant number of public sector activities from London and the South East to other parts of the United Kingdom. This was announced in the 2003 Budget on 9 April. The terms of reference for the review are:

“In light of the need to improve:

- *the delivery and efficiency of public services, and*
- *the regional balance of economic activity, and*
- *taking account of departmental pay and workforce strategies,*

Sir Michael Lyons will make recommendations to the Deputy Prime Minister and the Chancellor for the relocation of civil service and other public sector workers by November to inform the next spending review.”

1.2. My review will be informed by relocation proposals – which I have commissioned from Government Departments – and by an examination of the relevant evidence.

1.3. The Chancellor’s Budget statement on 9 April marks a watershed for the policy of public sector relocation. The ambition of Ministers is to relocate significant amounts of activity from London and the South East to other parts of the United Kingdom, in order to deliver greater value for the taxpayer, improve service delivery and to make Government more responsive to differentiated need across the country.

1.4. I am clear that the opportunities, and potential benefits, are considerable. A few facts may illustrate the scale of possibilities:

- Some 230,000 civil servants and other national Government workers are in London and the South East – about a third of the total. Far from all of these are delivering a local service. More detail on public sector numbers can be found at Annex A;
- London is the most expensive United Kingdom business location, with labour and accommodation costs higher than elsewhere, but it is not clear how well Government employers react to these price signals. The number of civil servants in London has grown by about 4 per cent since 1997, and it is striking that of 206 Government call centres, 52 are based in London and the South East. In addition, one Department has found the cost of accommodating staff in London is £10,230 per workstation compared to £6,800 per workstation for the rest of its office network;
- The expense of living in the South and the South East also makes it harder to recruit, retain and motivate staff, particularly at more junior grades. The average house price in Greater London is £239,000, nearly three times greater than the average for the North. The average travel to work time for London employees is 59 minutes, compared with 32 minutes in Birmingham or 28 minutes in Leeds;
- This is not just about costs: modern communication technologies and the Government's developing agendas on devolution and regionalism have changed the terms of debate about the geographical distribution of state activity;
- Although not without problems, relocations demonstrably work. Assessments, including formal evaluations, have highlighted the cost and delivery benefits arising from dispersals involving, for example, the Department for International Development (then the Overseas Development Administration) (1981), HM Customs and Excise (1990) the Patent Office (1994), and the Defence Procurement Agency (1995). More details are in Annex D.

1.5. There have been earlier relocation drives and they resulted in some lasting and beneficial changes. More details can be found in Annexes C and D. However, some relocations were not wholly successful. I do not want to repeat

their mistakes or find myself promising more than can be delivered. I want my final report in November 2003 to be a catalyst for real and lasting change, not an elegant, theoretical exercise. I believe that is what Ministers also expect. At the same time, I am intent that the evidence for my conclusions should be available for all to see.

1.6. In his Budget 2003 statement, the Chancellor made it clear that he expected that 20,000 posts across the civil service and the wider public sector might relocate. This represents the scale of Ministers' ambitions. My work so far suggests that it should be possible to achieve this figure or even exceed it but delivering change on this scale will need a different approach to that taken in past relocation initiatives, recognising that the business, policy and technological contexts have all changed remarkably, even since the 1990s. Ministers and those responsible for the management of Government services will need to think broadly about the new possibilities for relocation. They may also need a stronger set of incentives to do so.

1.7. It is all too easy for Departments to lose sight of the extra costs they incur from a central London location. Central London rents for high quality office space are significantly higher than those for equivalent space in other cities. One Department's recent rent review indicated a rental cost of £53 per square foot for a London headquarters, while equivalent space in Manchester could be obtained for £27 per square foot. Another Department has found that the cost of accommodating staff in London is £10,230 per workstation compared with an average across their office network of £6,800. In many areas of the country, the 'per workstation' cost was lower still. While the current state of the property market is likely to have narrowed these cost differentials, there is still scope for Departments to reduce overheads significantly through relocation.

1.8. In addition, staffing costs are considerably higher in the capital and the South East region, and recruitment and retention more difficult. A Government agency delivering a national service has advised the Review that recruitment and retention in London is more difficult than in regional offices despite paying

20 per cent more at junior grades and at least 10 per cent more at senior grades.

1.9. Given these regional differences, the extra costs that they impose on taxpayers and the constraints they place on public service delivery, Departments need to be very sure that where they retain a London or South East location there are compelling reasons to do so. The fact that civil service numbers in London are growing suggests that Whitehall thinking is not as sharp here as it could be and that managers are not reacting sensitively to price signals. This may not be a sustainable position in the context of future spending reviews and a renewed Government focus on efficiency.

1.10. The modern public sector is changing fast and future dispersals of Government activity are likely to go alongside reforms that reduce the overall size of the public sector, change the character of its work and provide a larger role for the private sector in delivery of public services. Modern communications, for example, videoconferencing and the internet, have altered the possibilities for organisations to deliver effectively across distance. There is a major focus on the need for better and more joined up delivery of Government programmes at regional and local level, and on the potential for Government action to narrow economic and social disparities between the different parts of the United Kingdom. In addition, the Government is committed to delegating and devolving decision making to the most appropriate level.

1.11. Alongside these developments, a broader debate is emerging about the kind of country we want to live in - the future shape of governance in the United Kingdom; how it connects with the individual both as a consumer of public services and as a citizen; and how Government can promote thriving communities and social cohesion. For example, the think-tanks, *IPPR* and *Catalyst*, have both recently recommended the wholesale relocation of Government Departments in the furtherance of broader Government

objectives.¹ These themes are being explored and advanced through the Government's agenda for regionalism, decentralisation and devolution and form a critical context for my study. Indeed, relocation makes little sense except as part of a broader agenda of public sector reform.

¹ Decentering the nation: a radical approach to regional inequality, Amin, Massey and Thrift, September 2003
Positive discrimination needed for the North: IPPR press release 3 July 2003

MY APPROACH

2.1. More details about my methodology are set out in Annex B. I have asked those who lead United Kingdom Government Departments and their wider 'families' of sponsored bodies to develop relocation proposals that fully reflect the scope for redistributing activity, taking account of the issues that I have mentioned above. I am clear that the approach must be led by robust business-cases developed by Departments, which reflect how and where they can best carry out their functions. I do not favour 'top down', centrally imposed solutions that cut across Departments' delegated responsibilities for the improvement of public services.

2.2. This does mean, however, that I expect Departments to be rigorous in addressing relocation. I believe that my position of independent oversight enables me to take a broad view of the adequacy and ambition of the business cases for relocation provided by Departments. I am developing a systematic and rigorous framework to assess Departmental submissions. My team will use this framework to ensure that the proposals put forward fully exploit opportunities for improving public services and reducing costs, particularly those offered by joint working between Departments. Our assessment will be informed by research that I have commissioned to provide a solid base of evidence for the Review, enabling my team and Departments to learn from wider best practice in the public and private sectors. Policies for relocation must be based on real evidence and I am keen to explore whether the Whitehall 'received wisdom' about relocation is properly aligned with the evidence.

2.3. I have ensured that my study is outward facing and have launched a public consultation exercise inviting views from a wide range of organisations and individuals on the issues surrounding relocation. The deadline for submissions is 12 September. However, I recognise that this, for some contributors, is a tight deadline and have said that I will be happy to receive detailed responses after that date (although I cannot guarantee to devote as much time to them), provided I have an outline submission by 12 September. I, and my team, have also met a range of key stakeholders, including the civil

service unions, the group of Core Cities, the Chairs of the Regional Development Agencies, Directors of the Government Offices for the Regions, and various local authorities under the aegis of the Local Government Association. I hope that my project team or I will have the time to engage with more interested parties before my final report is published.

2.4. My study will include a look at the likely economic impact of public sector relocation on different parts of the United Kingdom. I am clear that there is a strong connection between the business case for relocation and the Government's developing thinking on pay and workforce strategies at both regional and local level and, in particular, the need for public sector pay to become more sensitive to local labour market conditions.

2.5. I will report in November to the Deputy Prime Minister and Chancellor on the changes proposed for the civil service and wider national public sector. I will address any gaps between the broader opportunities for relocation and those that emerge from individual Departmental business cases and consider the scope for incentives, sanctions and other mechanisms to reduce these gaps.

2.6. I am pleased that the Chancellor has accepted my first recommendation on changes to Departments' estate management practices, namely that, until my final report is considered by the Chancellor and Deputy Prime Minister, proposals for significant new property commitments in London should be referred to the Treasury. This will ensure that due consideration has been given to relocation opportunities, and should prevent decisions being made that could hinder soundly based future relocation strategies. It might also be a useful step towards a more coordinated approach to the management of the Government estate in the interests of efficiency and certain other Government objectives.

2.7. I will also make recommendations to ensure that a clear procedure is established for taking proposed relocations forward.

RELOCATION IN CONTEXT

3.1. The concentration of Government work in and around London is not surprising. London is the heart of Government and is one of the world's leading financial and communication centres. The clustering of public sector activity in London can be seen as a rational response to political and business requirements allowing key staff to collocate with colleagues, Ministers, Parliament and other key stakeholders. Furthermore, much of the public sector activity in London and the South East, as elsewhere, serves a local customer base. I am not seeking to relocate the staff of, for example, local Job Centres any more than teachers, nurses, or social workers.

3.2. The question is not whether there should be a cluster of national Government activity in London, but whether a London or South East location can be justified for all the functions currently undertaken there. A theme of this review is the extent to which the current distribution of activity:

- has been shaped by history, expedience and inertia as much as by conscious business strategy focused on the cost and effectiveness of public service delivery and development;
- reflects continuing barriers to cross-departmental boundary planning and joint working which can deliver benefits such as 'one stop shops' for customers and citizens, and shared central service for Departments;
- has not caught up with the Government's agendas on regionalism, decentralisation and devolution; and
- has been less responsive than the corporate sector to the cost of property and labour in different parts of the United Kingdom.

3.3. I am inviting public service leaders to think along similar lines and to ask themselves:

"Given the range of objectives I am trying to deliver and the costs and other constraints I am under, can I afford to leave unexamined the assumptions that underpin the current geographical distribution of my activities?"

It is my strong belief that there is great potential for Departments to make significant changes to their structure and operations and to improve the efficiency and quality of the services they deliver.

3.4. I find it particularly notable that so much of Government call centre activity has been located in London and the South East. Departments' use of call centres has increased rapidly in recent years. In 1989, there were only 13 Departmental call centres. By 2002, this had risen to 206 centres delivering 133 different services and handling over 95 million calls. However, 52 of the 206 call centres are based in London and the South East.² I would expect Departments to consider very carefully whether they can afford to continue to locate such services, in areas where accommodation and staff costs are significantly higher than in the rest of the United Kingdom. Departments may also want to consider the potential benefits of planning and working together to collocate call centre services. Small call centres lack the flexibility to deal with the variations in customer demand that occur during the course of the day, or respond rapidly to events that spur a sudden increase in demand for a service. Co-location may provide this increased flexibility, deliver economies of scale, and justify spending on up to date telephony and IT systems that small single Department services might struggle to justify.

3.5. I hope it is clear that I use the term 'relocation' to embrace rather more than the dispersal of an existing activity. It encompasses the question where to site new work, where I believe there is a need to strengthen the existing presumption that the default location should be other than London or the South East. Relocation can be about moving activities, posts or people. Sometimes, it is about moving the decision rather than the adviser. Different issues arise for each and, for the purposes of my study, I am asking Departments to focus primarily on the strategic business case for relocation of distinct functions and activities. This is the necessary precursor to more fine-grained considerations about 'who moves, when, and to do what'.

² NAO report: 'Using call centers to deliver public services' – 9 December 2002

3.6. Of course, relocating public sector activity is not a new idea. There have been three major United Kingdom reviews since the 1960s (and, in addition, the Scottish Executive is now pursuing its own programme of relocation). The Flemming Review in 1963, the Hardman Review in 1973 and a further drive in the late 1980s (see Annex C) contributed to a significant dispersal of national Government activity out of London and the South East, with jobs based in London diminishing both in relative and absolute terms. In the main, these earlier relocation drives were focused on the need to reduce labour and accommodation costs through transferring activities, in particular, self-contained blocks of executive work. There was also an explicit aim to bring employment to deprived areas.

3.7. Has the job of relocation therefore already been done? This is not the view of the Chancellor, the Deputy Prime Minister, or their Cabinet colleagues. The world has moved on since these earlier relocation drives were undertaken, and the conditions and opportunities for relocation are very different now to those prevailing in previous decades. I intend to examine whether the leaders of our major public sector organisations have the right incentives to exploit the advantages of relocation on an on-going, rather than intermittent basis. Figures³ provided by Departments for my review indicate that of about 700,000 public sector workers in Departments and bodies which fall within the scope of my Review, some 231,000, or one third, are based in London and the South East.

3.8. In tasking heads of United Kingdom Government Departments with producing proposals for relocation, I have said that they should locate their thinking within the strategies for modernising their processes and delivering on their Public Service Agreements. I have urged that Departments' relocation proposals should be based on sound business considerations where the benefits to the public, the customer and the taxpayer are clear. Naturally, a business-case led approach must also identify and, if possible, quantify the costs and risks of relocation, including 'up front' expenditure, the potential

³ These figures have been provided by Departments to the Review. They include all military personnel irrespective of whether the functions being undertaken are operational or administrative. Further information can be found in Annex A.

disruption that may arise in the short term and any longer term downside. However, these considerations must not be taken out of proportion, or allowed to dominate to the extent that Departments do not engage fully with relocation.

3.9. Meanwhile, I intend that the research I have put in train will paint a clearer picture of how dispersal of activity can be made to deliver real benefits and how best to design out, or otherwise minimise, any downside. A body of received wisdom has grown up around previous relocations and my aim is both to understand the facts and, where necessary, challenge the perceptions. I am already clear that the evidence is likely to present a more complex and nuanced picture than with which I am often presented.

ISSUES LIKELY TO EMERGE

4.1. At this stage in my Review, I see a number of issues already emerging that will be discussed further in my final report. Undoubtedly, others will emerge in the course of the Review and out of the consultation.

Redesigning service delivery

4.2. Given the advances in technology and ICT, including the internet, I have asked Departments to consider relocation in the context of fundamental business re-engineering. I believe there are substantial opportunities not just for relocating public sector activities but for more fundamental reorganisation involving re-engineering of business processes, or outsourcing, or even reducing jobs in furtherance of wider efficiency and modernisation goals.

4.3. To this end, I have specifically requested that Departments consider the opportunities for relocation that arise in the context of joining up processes and delivery across administrative boundaries and by exploiting ICT to streamline service delivery. Ensuring the public sector overcomes institutional inertia and embraces the opportunity for joining up back-office functions by adopting new technologies and innovative business practices may require a central initiative. My final report will assess the extent to which these opportunities have been grasped by Departments, and will suggest how this issue should be taken forward.

4.4. It has been already suggested to me that the relocation of call centre and other business support activities overseas could deliver even greater efficiency gains. My Review is concerned with redistributing activity within the United Kingdom to deliver better public services and to tackle regional and sub regional economic disparities. While there may be significant cost savings from relocating overseas, it strikes me that we first need to understand the scale of cost savings and wider economic benefits available within the United Kingdom, as well as learning more about the limits of call centre technology for the delivery of public services. I am convinced that savings and service

improvements must not be missed today because of arguments that even greater savings could be achieved by more radical change tomorrow.

Devolution and delivery on the ground

4.5. My remit is to look at the opportunities for decentralising rather than devolving Government activities. However, devolution is a crucial backdrop. The Prime Minister's *Principles of Public Service Reform* make clear that delivering high quality, responsive services is dependent on delegating or devolving responsibility for their design and implementation to local leaders. Where decisions are taken as close to the citizen as possible, public services tend to be characterised by flexibility and greater responsiveness at the point of delivery. In addition, local and regional economies may be able to exploit distinctive opportunities and demonstrate real flexibilities in response to increasingly global challenges. This is the Government's vision: the question is whether this can be delivered within the machinery of government in place today and, if not, whether dispersal of Government activity out of London and South East may provide part of the answer. The increasing importance of policy being developed with our partners in the European Union is also likely to have an impact on the arguments for relocation.

4.6. The potential for successful future devolution of responsibilities to regional and local tiers of Government will be linked to progress in developing a coherent and joined up machinery of service delivery at local and regional level. The view has been put to me that, in many instances, the delivery of programmes on the ground is poorly co-ordinated and under-resourced. I am keen to explore what role relocation might have in addressing such deficiencies, drawing on the views of key regional and local players such as the Government Offices for the Regions, the Regional Development Agencies and local authorities.

Are there economic and wider social benefits to be gained from dispersing Government activity?

4.7. The economic impact of relocation at regional level is by no means clear. I hope through the research I have commissioned to throw some light on this

matter. The Government has a target (shared jointly by the Department of Trade and Industry, the Office of the Deputy Prime Minister and the Treasury) 'to make sustainable improvements in the economic performance of all English regions and to narrow disparities in regional growth rates'. I clearly need to explore whether dispersal of Government activity has a part to play in this.

4.8. The Hardman study of 1973 (see annex C) viewed the economics of relocation essentially as a 'zero sum game' and concluded that there were no economic benefits to receiving locations beyond the impact of bringing local people into employment. Intuitively, this strikes me as a surprising and rather narrowly focussed conclusion. I am interested to explore the likely multiplier effects of bringing significant new Government work to different locations and any wider if less quantifiable benefits arising from the dispersal of high quality employment across the country. I am also interested in whether there are benefits that might accrue to London and the South East through an altered distribution of Government jobs across the country.

London still the default location

4.9. London continues to be seen as a default location for many national public sector activities. I see no evidence that the presumption against locating public sector activities in London and the South East promulgated in the regional White Paper, '*Your region, your choice*' published in May 2002, is being observed. I will want to address, in my final report, what mechanisms might be put in place to reinforce the presumption against London, while ensuring that those functions that genuinely need to be in and around Whitehall, and to serve local needs, remain there.

4.10. My letter to Permanent Secretaries and Heads of Departments of the 10 July asked public sector leaders to revisit any earlier plans to relocate activity or to locate new activity in London and the South East. In line with this, I would expect that any imminent plans to sign or extend leases in these areas are looked at again in the context of this study. More generally, I am concerned that difficulties in surrendering leases, and other estates constraints, can be significant obstacles in the way of the development of imaginative

business re-engineering and relocation proposals. I will want to consider whether strengthening the co-ordination of the Government's office estate could facilitate moves and avoid costly new build, while allowing substandard buildings to be released, and fostering closer integration between co-located services. Such tighter accommodation management might also have spin-off benefits, for example, in improving the Government's capacity to pursue regeneration and housing objectives, alongside other agencies. Meanwhile, I recommend that until my final report is considered, Departments should be required to consult the Treasury, as an external challenge, before signing new property leases or renewing existing ones. This would be a practical common sense step intended to prevent actions taken now from influencing the outcome of my Review.

What is policy work and does it have to be in London?

4.11. Previous relocation drives took it largely as read that departmental policy makers needed to be co-located with Ministers, Parliament, counterparts in other Departments and other key stakeholders in London. The assumptions underpinning this view must be challenged as so much of the context has been changed by developments in ICT, and by Government policy on public service delivery, regionalism and devolution. In any case, plenty of Government policy work is already conducted outside London.

4.12. My review will seek to inject some clarity into thinking about what may be loosely termed 'policy work' and question the extent to which staff involved in the analysis, advice and decisions that underpin Government action need to be based in London and the South East. In considering how to distinguish policy functions that are inextricably bound to London because of the need to serve Ministers, Parliament and other stakeholders, from those that could be carried out elsewhere, it is important to recognise such different categories as, for example, staff who:

- regularly work closely with Ministers;
- develop new policy ideas, and are engaged in research and analysis; and
- are responsible for the 'intelligent delivery' of policy.

4.13. I am interested in exploring whether there are circumstances in which policy making might be different or even better if dispersed, bearing in mind that, in some cases, the solution might be to devolve policy development rather than decentralise it. There may well be a case for greater embedding of policy development in the regions on the grounds of improving regional delivery, and increasing engagement with local stakeholders.

'It's hard to be in the loop if you're not in Whitehall'

4.14. The preference for policy making to be based in London has a prominent human dimension. There seems to be a widely held view that people outside the Whitehall village are 'outside the loop' in terms of communications and career opportunities. Some public servants may feel they need to be near Ministers and where 'the political action' takes place. This view should change as devolution advances to the point when 'political action' is felt to take place not only in London.

4.15. There is also a perception that there is not a critical mass of career opportunities in locations outside London to provide a magnet for talented people to pursue public sector careers in the rest of the United Kingdom. This is something that both devolution and further decentralisation should help address, offering satisfying careers to those whose skills and talents have a great deal to contribute to these communities. Absence of critical mass also tends to work against career integration with the private sector and other parts of the public sector.

4.16. Locations outside London and the South East have a great deal to offer both staff and Government. Many Departments have successfully relocated with benefits for both the business and for staff in terms of quality of life. A number of Departments have commented that previous relocations significantly improved quality of life of their staff. I have commissioned some research to allow me to take an informed view of what locations in the rest of the United Kingdom have to offer.

Alternative locations

4.17. It is clear to me that it is neither desirable nor realistic to predetermine alternative locations in the manner of the Hardman Review of the early 1970s. This would run counter to the principle that relocation decisions need to be business case driven and based on sound reasons for improving public service delivery. Nevertheless, it is important to take a properly informed view on the strengths and attributes of what the rest of the United Kingdom has to offer in terms of local workforce, communications, transport, accommodation, housing, schooling and infrastructure. To this end, I have commissioned research from *King Sturge* to provide an objective comparative analysis of alternative locations.

4.18. I will examine the benefits of and scope for the clustering together of public sector activities in alternative locations, taking account of what emerges from Departmental relocation proposals and the need for Departments to share intelligence on their relocation plans. At the same time, I am alive to the potentially distorting effects that might attend large scale moves to a relatively small number of alternative locations, for example, the possibilities of overheating local labour and property markets and of crowding out private sector activity.

London and the South East: deprived areas and growth areas

4.19. I recognise that London and the South East regions do not constitute a single homogeneous entity. They contain pockets of deprivation as well as areas where the property and labour markets are overheated. Aware of this, it is not my intention to promote an exodus of Government activities from relatively marginal parts of London and the South East. I also want to consider whether there is any possible read-across between my study and the Government's sustainable communities policy for housing growth in areas of London and the South East.

People issues

4.20. Although the strategic focus of my study is on the case for moving activities, rather than individuals, I do wish to address the people issues that will very quickly emerge for Departments. Some of these are both difficult and sensitive, not least the choice of alternative locations; the costs of relocating individuals; and the operation of mobility clauses, with the need to ensure equitable treatment of women and ethnic minorities. There are also some testing leadership challenges for organisations, for example, in relation to culture change and industrial relations, and there is a question whether Government Departments and other organisations have the right leadership and capacity to handle these complex issues effectively.

4.21. These are all issues which I shall be considering and I will be listening carefully to the views of staff and their representatives during my study. At the same time, I do not want to lose sight of the potential 'upside' for individuals. For many public sector employees, considerations of purchasing power, quality of life, and work/life balance might make relocation out of London and its surrounds a very attractive proposition. Indeed, the quality of life improvements enjoyed by staff who move are a consistent feature of earlier relocations. To consider just two examples, it takes on average 59 minutes for employees to travel to work in London; many people face much longer and more expensive journeys. However, in other parts of the United Kingdom, the average travel time is much shorter – 32 minutes to get to work in Birmingham, 34 minutes in Manchester, and 28 minutes to get to work in Leeds. And, on housing costs, the average house price in Greater London is £239,000, nearly three times greater than the average for the North. The gains in terms of greater motivation are also likely to be captured by their employers.

CONCLUSION

5.1. This interim report identifies some of the issues emerging for further consideration by my Review as it progresses. It explains the methodology I have adopted for carrying forward the Review. My approach involves neither dictating functions to be moved, nor destinations, but it requires Departments to think radically about how and from where they can best deliver efficiency and public service delivery improvements.

5.2. The Chancellor's statement in April 2003 marked a watershed for public sector relocation. This is not a one-off relocation 'drive'; but a fundamental change in approach which requires public sector leaders to presume against the locating functions in London and the South East, unless they serve purely local needs. It requires them to exploit to the full the opportunities offered by modern technology; to think creatively about modernising Department's processes; and to consider how to build capacity across the United Kingdom to carry forward the regional agenda and, in time, devolution.

5.3. I am conscious I have set Departments a demanding task in developing relocation proposals. I hope they will think hard both about the costs of operating in London and the South East, and the broader benefits of relocation discussed here. I am sure Departments can come up with creative and robust proposals in response to my Review. I look forward to making my full report to the Chancellor and the Deputy Prime Minister later in the autumn.

Annex A

Departments: the baseline position

I have asked Departments to think radically, but realistically, about opportunities for relocation. Their full proposals are to be submitted by 12 September. My final report in November will rely heavily on Departments' input, and my assessment of this, to identify the scope for relocation, and how to recommend to the Chancellor and Deputy Prime Minister that this agenda is best taken forward.

This annex sets out some of the baseline information submitted to the Review, and comments on the present extent to which Departments' functions and staff are dispersed. It reflects:

- Core data on 'who does what and where' from submissions made by Departments;
- Other information submitted to the project team at meetings and in correspondence with Departments; and with other stakeholders; and
- Research, and data gathered by the team.

Baseline data submitted by Departments

The table below shows provisional data on the number and proportion of United Kingdom public sector jobs which are based in London and the South East. It is based on returns submitted by Departments to the Review⁴. The figures represent, for each Department, the total of all staff in:

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The figures include staff in Scotland, Wales and Northern Ireland where necessary. Definition of London is the area covered by the Government Office for London. Definition for the South East is the area covered by the Government Office for the South East. Foreign and Commonwealth Office and Department for International Development total figures only include their staff in the United Kingdom.

Department of Health, Department for Education and Skills, Home Office figures do not include hospital staff, school staff, police, probation service (apart from headquarters staff) or prison officers (apart from headquarters staff).

Office of the Deputy Prime Minister figures do not include staff in the Government Offices of the Regions.

Office of Communication's return is based on the staff distribution of the Regulators from which it will take over when it becomes operational. This is liable to change.

Office for Standards in Education has 240 home workers which are excluded.

Table 1 does not include data from the Bank of England and National Archive.

- the Department concerned;
- the Department's agencies;
- the Department's Non-Departmental Public Bodies, and other public sector bodies sponsored by that Department.

The figures do not include those public sector organisations, which do not have a presence in London or the South East; or those which solely provide a service to the public, regionally or locally. I will consider whether these figures need further work to ensure their reliability and accuracy and will welcome any reactions to them.

Table 1

Total public sector workers and proportion in London and the South East in organizations within the remit of the review					
Department	Total staff	London	% London	South East	% SE
Cabinet Office	2,596	2,119	82	303	12
Charity Commission	589	167	28	0	0
Crown Prosecution Service	7,600	1,665	22	766	10
Department for Culture Media and Sport	17,877	10,043	56	NA	NA
Customs and Excise	22,590	5,379	24	4,110	18
Department for Education and Skills	11,854	3,953	33	623	5
Department for the Environment, Food and Rural Affairs	31,017	4,108	13	6,053	20
Department for International Development	1,530	990	65	0	0
Department for Transport	15,820	2,310	15	1,640	10
Department for Work and Pensions	139,774	15,283	11	9,609	7
Department of Health	25,483	7,194	28	2,709	11
Department for Trade and Industry	25,716	7,652	30	1,448	6
Export Credits Guarantee Department	405	350	86	0	0
Food Standards Agency	2,006	595	30	6	0
Foreign and Commonwealth Office	6,146	4,572	74	1,038	17
Government Actuaries Department	103	103	100	0	0
HM Land Registry	7,831	771	10	535	7
HM Treasury	1,152	1,152	100	0	0
Home Office	27,558	16,727	61	1,469	5
Inland Revenue	72,024	7,398	10	6,892	10
Legal Services Secretariat	35	35	100	0	0
Department of Constitutional Affairs	15,054	7,156	48	1,244	8
Ministry of Defence (Military)	161,940	6,370	4	49,710	31
Ministry of Defence (Civilian)	89,840	7,590	8	18,960	21
Office of Communications	1,127	900	80	27	2
HM Crown Prosecution Service Inspectorate	42	31	74	0	0
Office of Government Commerce	581	188	32	0	0
Office for National Statistics	4,082	1,040	25	900	22
Office for Standards in Education	2,825	750	27	330	12
Office of Fair Trading	637	637	100	0	0
Office of Gas and Electricity Markets	299	288	96	0	0
Office of the Deputy Prime Minister	6,651	3,210	48	376	6
Office of the Rail Regulator	132	132	100	0	0
Serious Fraud Office	246	246	100	0	0
Treasury Solicitors	720	710	99	0	0
TOTALS	703,882	121,814	17	108,748	15

See footnotes on page 22

Table 1 shows that there are 703,882 public sector workers in organisations which fall within the scope of my Review⁵. While the data has some limitations,

⁵ The figures include Ministry of Defence civilians and service personnel. The latter includes all United Kingdom based regular forces, whether deployed operationally or in other capacities.

as indicated in the footnotes, the table shows that of the public sector workers within the scope of the Review some 231,000 or one third of the national total are based in London and the South East: 121,814, or 17 per cent, are based in London and a further 108,748, or 15 per cent, are based in the wider South East.

The table demonstrates how the extent of dispersal across the United Kingdom varies between Departments. For example, 11 per cent of the staff of the Department for Work and Pensions and its sponsored bodies are based in London, and 7 per cent in the South East, compared to HM Treasury, the Office of Fair Trading, and the Office of the Rail Regulator, who have 100 per cent of their staff based in London. It is no surprise that those Departments more focused on directly delivering a service to customers across the United Kingdom are generally more dispersed. The Department for Work and Pensions, HM Customs and Excise, and the Inland Revenue are examples. Departments which traditionally have a strong policy focus, for example, the Cabinet Office, tend to be more concentrated in London.

This reflects the assumption that policy functions must be located near Ministers, Parliament, stakeholders, and colleagues in Whitehall. Indeed, as I have noted elsewhere, many previous Government relocations have been based on this assumption, and have generally only dispersed blocks of executive work. We know, however, that some 'policy focused' Departments, for example, the Department of Health and the Department for Education and Skills, have experience of successfully undertaking policy functions beyond Whitehall. The experience of these Departments challenges the assumption that policy staff must be co-located with Ministers and sets an example to others that this can be done. I will be looking to other Departments to consider opportunities for this.

While Table 1 shows that some Departments have already achieved significant levels of dispersal, I would not expect this to be taken as an indication that there are no further opportunities. Indeed, existing levels of dispersal might well make further relocation easier, as systems would already be in place in the

Department to work across a geographical distance, to which the Department's culture would be more attuned. But, the important question each Department must address is whether, in the light of costs and other constraints, it can afford to leave unexamined the assumptions underpinning the current geographical distribution of activities.

Functions undertaken in London and the South East

The core information requested from Departments asked for details on the functions still being carried out in London and the South East. From this, a broad-brush estimate of the types of work being done can be drawn. We can deduce only an impression – the definitions used by Departments in allocating their staff to specific functions have varied, and some Departments were not able to make this allocation at all.

Charts 1a and 1b show that much of the public sector work being done in London, and even more so in the South East, as in other regions, is serving a local customer base. I am not seeking a relocation of these kinds of jobs, except to the extent that efficiency or quality of delivery can be improved by, for example, centralising and then relocating some back office support functions. I will want to consider what further work might be undertaken to build a more reliable estimate of the number of potentially 'relocatable' jobs.

The charts also indicate that a large amount of the work being done, especially in London, is policy and back office support work. The assumptions underpinning the view that this work must remain in London, given the high costs and other disbenefits of a London location, should be challenged.

Chart 1a

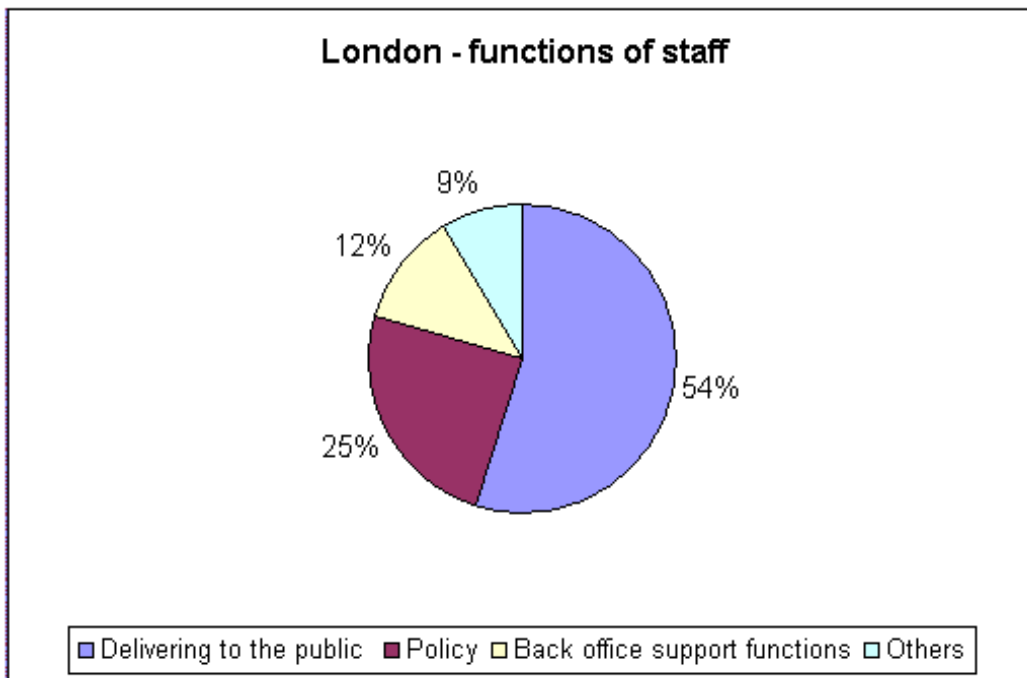
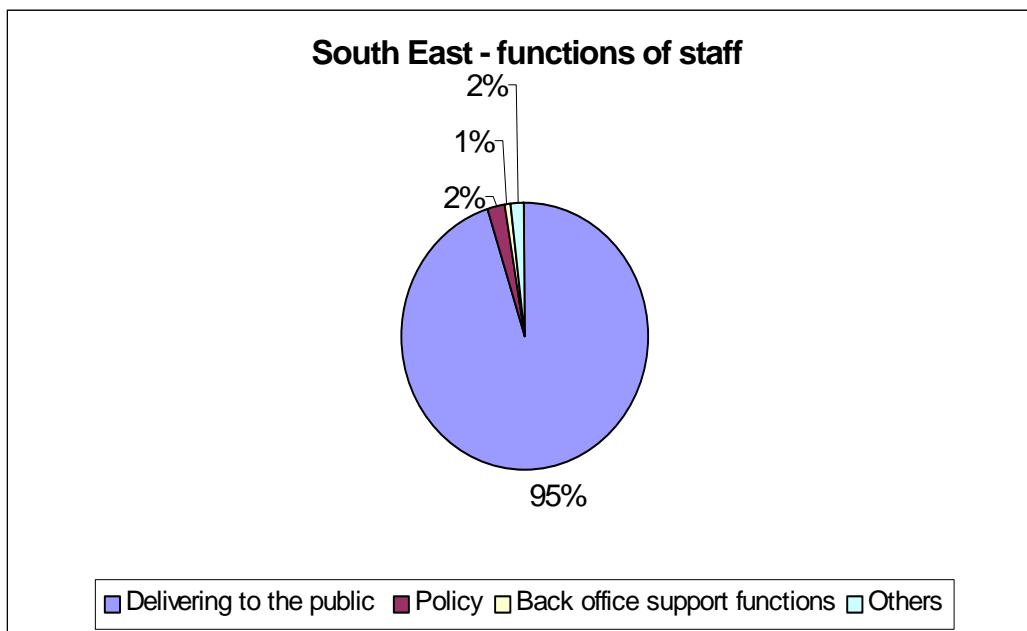


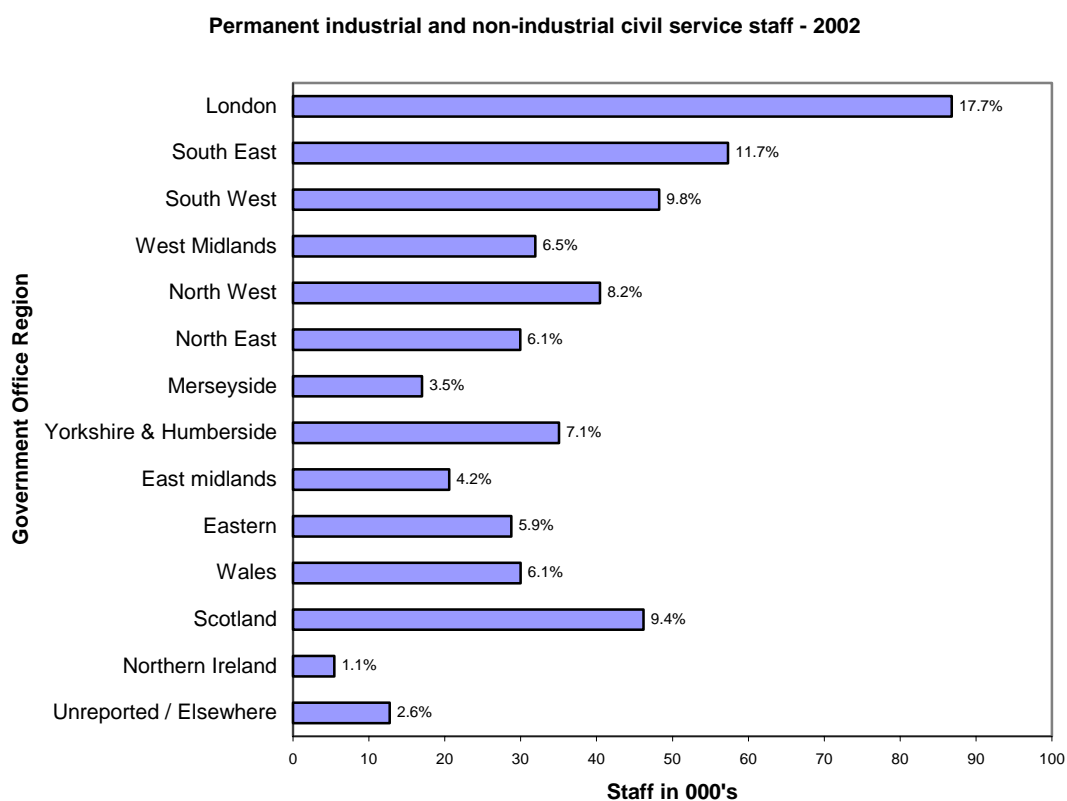
Chart 1b



Regional distribution of civil service posts

We do not have yet a full regional breakdown of the figures provided by Departments to the Review. But, we can use existing data to give an indication of the current distribution of civil service posts.

Chart 2



Source: Civil Service Statistics 2002

Chart 2 provides a regional breakdown of over 490,000 civil service staff. It is important to note that this selection is only a subset of the 700,000 included in the remit of the Review (see Table 1), but the regional staff distribution is likely to be broadly indicative of the distribution of this wider group.

The chart shows that approaching one third of all permanent civil servants work in London and the South East. This is in line with the distribution of staff shown in Chart 1.

We know from Cabinet Office statistics that the latest trend is for a steady growth in the number of civil servants in London and the South East (against a

backdrop of a general increase in civil service numbers). Since 1997, the number of civil servants in London has grown by around 4 per cent; since 1999, the number in the South East has grown by about 1 per cent.

Annex B

Methodology

Departmental proposals

The core of this exercise is to give Departments themselves the responsibility for drawing up relocation proposals and my final report will rely heavily – though not exclusively - on what Departments say. I have invited Departments to think radically about the scope for relocating their activities and those of the bodies that they sponsor, and to ask searching questions about why particular activities need to be in London and the South East. This is not a 'top down' exercise like the Hardman Review of the 1970s. I do not intend to tell Departments what to do as this approach would cut across the delegated authority that modern Government Departments enjoy, and be unlikely to reflect a proper business case.

I wrote to heads of United Kingdom Departments on 14 May to announce the launch of this review and to set out my initial thoughts on the purpose of the study and the approach I intended to pursue. I asked Departments to provide core data on 'who does what and where' across the United Kingdom so that I can have a complete overview of activities throughout the country. I am very grateful to those Departments who responded within the deadline. Statistical data emerging information from that survey is provided in Annex A.

On 23 May, Departments were asked to submit imaginative but realistic relocation proposals by 12 September. Those proposals should be business case based and draw on any evidence available in support of the proposals including any experience of previous relocations. Further guidance on formulating proposals was issued on 10 July. I have specifically asked Departments to address the following questions in their proposals:

- does the Department's outline business case properly draw out the long-term benefits against the short term 'up-front' costs?

- are cost considerations being allowed to 'stifle' radical and imaginative proposals?
- what are the opportunities for re-engineering business processes within and across Departments?
- has the Department properly addressed opportunities arising within its broader family of sponsored bodies?
- could relocating activities out of London and the South East improve the quality and delivery of public services locally and nationally?
- does the Department really need to retain any non-local delivery activities in London and the South East?
- does the Department even need to be headquartered in London?
- is the Department thinking within its own silo and not considering options and opportunities for joining up with others in locations outside London and the South East particularly in relation to provision of back office activities?
- are assumptions about the need for proximity to Ministers and other stakeholders being properly challenged? Is proximity being given too much weight against other factors, such as the higher costs of operating in London?
- what does the Department mean by 'policy work'? Is its definition too broad?
- is a proper distinction made between policy formulation in direct support of Ministers and activities in support of this work, including a focus on delivery, which may not need to be co-located?

- do the Department's proposals take full account of the Government's stance on regional and locally based pay?
- how could ICT, if applied innovatively, transform operations and processes as well provide cheaper, faster and better services to customers and the public?

Assessment of departmental proposals

I am developing a framework for the systematic assessment of Departmental proposals, which allows each proposal to be scrutinised by those with the expertise to evaluate specific aspects of a submission, for example, estates issues, or pay and workforce issues. My team will also be discussing proposals with Departments where we consider aspects need to be developed or challenged.

The evidence base

It is important that the Review draws out lessons from public and private sector relocation here and overseas. I have commissioned *Experian Business Strategies* to assist with this. They have been asked to conduct a thorough appraisal of a number of relocations to understand the benefits, learn best practice and assess the likely economic impact on both receiving and donor areas from the transfer of public sector activities.

There are clear examples of success including the relocation of the Patent Office to Newport in Wales, the Defence Procurement Agency to Bristol, the Department for International Development to East Kilbride. The relocation of the Meteorological Office to Exeter also promises to bring benefits. There have also been problems and we need to learn how these can be designed out of relocation proposals or how they are best mitigated.

Departments preparing business cases for relocation need to have a sense of the relative merits of different locations considering factors such as employment capacity, quality of life indicators and the local skills base. I have commissioned *King Sturge* to carry out a high level analysis of capacity of different regions to

accommodate different types of public sector activity. I shall shortly be publishing a summary of their findings and the detailed supporting data will be made available for Departments to interrogate.

I am pursuing separate strands of research on lessons learned from the Government Offices for the Regions as a model for decentralising national Government activity and on the scope for dispersing national Government work in order to improve delivery at local and regional level.

I am also looking at how the implementation of information and communications technology, re-engineering of Government processes and services, and the moves to more flexible working practices and public sector pay structures can facilitate relocation.

Consultation

On 19 June, I launched a consultation exercise inviting organisations and individuals with an interest in relocation to feed their views in to the review team. I am extending the original deadline of 12 September to give contributors more time to respond and to allow people to offer views on this interim report if they wish and, in particular, to comment on the detailed figures in the Annexes.

Stakeholders

On 9 June, I wrote to the devolved administrations in Scotland, Wales and Northern Ireland inviting them to contribute to my Review. On 10 July, I met the main public sector unions. On 15 July, I made a presentation to the Chairs of the Regional Development Agencies on relocation who have agreed to bring forward a coordinated response to the Review. In addition, on 31 July, my review team participated in a Local Government Association sponsored 'brainstorm' on relocation involving Chief Executives or the representatives of fifteen of the major local authorities across England. The project team and I will be meeting more stakeholders before the Review concludes.

Annex C

Previous Relocation Initiatives

The concept of relocating public sector activities away from London is not new. Three previous reviews have taken place although none has had quite the same remit or approach as the present one.

Flemming Review 1963

The first major study of recent times was conducted in 1963 by Sir Gilbert Flemming⁶ and considered the relocation of 95,000 headquarters staff based in London. Flemming's methodology was based upon identifying self-contained areas of activity that could be relocated in their entirety to generate property and labour savings without any loss to efficiency. One of the key criteria used in Flemming's Review was the identification of staff who had little contact with Ministers or with teams other than their own. As a result, most of the posts that were identified for dispersal were in low-grade processing, accounting and statistical functions. 57,000 jobs were recommended for relocation and the review also concluded that any new bodies would, where possible, be located outside London.

22,500 jobs were relocated between 1963 and 1972 and a further 7,840 were awaiting dispersal at that time. 9,490 new civil service posts had been created outside London and a further 10,370 post were expected to be set up outside London.

This meant that, of the 143,700 non-industrial civil service jobs remaining in London in 1972, 48,000 were in local or regional offices relating to London. This left 97,500 headquarters staff in London.

⁶ Data on Flemming Review drawn from 'Public Sector Relocation and Regional Development' C.W Jefferson and M Trainor, Urban Studies Vol. 33, No. 1, 37-48, 1996

Hardman Review 1973

In 1973, Sir Henry Hardman carried out a second major relocation review, which considered a further 78,000 London headquarters staff for relocation.

This review⁷ was conducted in the context of a general re-organisation of Departmental functions with the aim of:

- improving the quality of policy formulation
- improving the framework in which policy was formulated
- ensuring that Government responds and adapts to new policies and programmes.

For the first time, the review included policy staff in consideration of who should be relocated. As a result, the frequency of meetings with Ministers was considered to be a key factor for decisions on relocation. Contact with other units within Government, and outside stakeholders was another important factor, along with recruitment issues for different jobs.

The review also made recommendations about where functions should be relocated using broadly the following criteria:

- Assisted Areas, as determined by regional policy, were preferable. Government had specified these assisted areas prior to the review;
- New offices had to be of sufficient size, to ensure efficiency, and viability of career opportunities for relocating staff;
- Access to London; and
- A local labour market that could meet Departmental recruitment needs.

The review recommended the dispersal of 31,500 posts. Only around 10,000 of these were ever dispersed.

⁷ Announced in the 'Reorganisation of Central Government' White Paper: October 1970: Cmnd 4506

1988 Relocation Policy

This policy did not set central targets for numbers to be relocated; nor did it specify areas to which relocation would be preferable. Instead, Departments were required to keep the location of their staff under active review, and report their progress to the Treasury. These reviews were to be carried out with the objective of:

- improving cost effectiveness;
- wider employment and economic benefits in light of regional policy; and
- benefiting operational, and managerial efficiency.

A number of Departments, including the Department of Health and the Department of Social Security, relocated substantial numbers of staff as a result.

Annex D

Examples of Previous Public Sector Relocations

Earlier relocation reviews have resulted in significant transfers of activity from London and the South East to other areas of the United Kingdom. However, formal assessment of the outcome of relocation activity is rare. This annex draws together the experiences of those public sector bodies that have undergone relocation and then been subject to an internal review or third party investigation of their dispersal efforts, or which have provided information about their relocation to the Review Team. This body of knowledge will be enhanced as a result of the work commissioned from *Experian Business Strategies*.

As one might expect, the experiences of relocation are mixed. A number of organisations have benefited from reduced operating costs and improved recruitment and retention that have allowed them to enhance the quality of service delivered. Other Departments and Non Departmental Public Bodies believe they have failed fully to realise these cost savings or that the relocation has to an extent been compromised by the adverse impact of frequent travel to London on the lives of some key officials. There is also an undercurrent of concern that, while activity can be transferred from London, key decision-making tends to remain there. This compromises the ability to have a career path leading to senior civil service level outside London and can undermine the role of the 'secondary' location.

It is important that my Review learns the positive and negative impacts of relocation so that we can highlight best practice and try to understand whether innovations in Information and Communication Technology can mitigate some of the negative experiences. The final report will expand on the rather narrow evidence base outlined in this annex by drawing on the information submitted to the public consultation exercise and by integrating the key lessons from the research activity I have commissioned.

The Planning Inspectorate – relocation to Bristol - 1978

The Planning Inspectorate relocated its headquarters functions to Bristol from London in 1978 as part of an earlier round of relocation that focused mainly on executive non-policy functions. The Inspectorate has a total current staff of about 750, of whom almost 300 are Inspectors who work from home.

We are not aware of a formal evaluation having been undertaken of the effects of this relocation, However, the Planning Inspectorate have provided the review team with information on specific aspects of their present location They have found that relocation has delivered:

- cheaper, more flexible accommodation better suited to business needs;
- improved quality of life for staff – lower housing costs, good quality environment; and
- no adverse impact on the service delivered to customers.

However, the Planning Inspectorate highlighted a series of unanticipated consequences of relocation. These include:

- physical separation from Ministers and those responsible for the development of planning policy has reduced the sense of corporate working; and
- senior managers travel to London for high level meetings. This has, however, been reduced in recent years though the adoption of videoconferencing.

Manpower Services Commission – relocation to Sheffield - 1979

The Manpower Services Commission relocated to Sheffield from London in late 1979. The initial move involved 1,100 volunteers moving up between 1979 and 1982. It is believed that another 500 to 600 additional people were employed locally.

The selection of Sheffield was influenced by the enthusiasm of the City Council to assist the relocation by offering inducements including lower rents and temporary council houses to employees looking for permanent accommodation. In addition to this, the relocation was helped by the fact that employees were offered a range of packages and deals from the Department to encourage them to move.

The move was considered a relative success. It was reported at the time of the move that, after accounting for the Commission's £15 million headquarters building in Sheffield, they would be able to realise annual savings of an estimated £4,300 each year for each job transferred from London.

Overseas Development Agency – relocation to East Kilbride – 1981

The Overseas Development Agency relocated 427 posts from London to East Kilbride in 1981. The Department of Economics at the University of Strathclyde carried out a comprehensive evaluation of the Overseas Development Agency (ODA) relocation in 1988⁸.

The University of Strathclyde assessment found that the transitional costs of relocation would be covered through long-term structural savings on accommodation and staff within 7 years of the move to East Kilbride. It also concluded:

“that the ODA dispersal to East Kilbride was both an efficient use of resources at a United Kingdom level and a highly cost-efficient means of transferring employment and activity from London and the South East of England to a development area.”

The Overseas Development Agency is now the Department for International Development which has continued to relocate activity to East Kilbride.

⁸ ODA Dispersal to East Kilbride: An Evaluation, ESU Research Paper No. 14, University of Strathclyde. April 1988

Department for Educations and Skills – Relocations to Sheffield, Runcorn and Darlington – 1980s

The Department for Education and Skills has inherited sites in Sheffield, Runcorn, and Darlington as a result of earlier relocations and machinery of government changes. This has enabled the Department to develop centres of expertise in a number of specialised delivery areas and achieve cost savings. However, the relocations have also presented a number of challenges:

- significant travel burden placed on key officials;
- some inefficiency in responding to issues that cut across different locations' areas of expertise; and
- large proportion of senior management time and Departmental resource devoted to creating an infrastructure capable of operating across locations.

Department of Health – relocation of National Health Service Executive to Leeds – early 1990s

The NHS Executive relocated to Leeds in the early 1990s. The NHS Executive wanted to emphasise that its role of managing the NHS was a function with some independence from the London based policy divisions of the Department of Health. Leeds was the chosen location as it offered a relatively short travel time to London and a high level of NHS expertise due to the presence of key stakeholders in the region. It was thought that drawing upon this expertise would improve the service that was being provided.

- most of the 1,000 staff (from the Department of Health and other government Departments) volunteered to be relocated;
- the relocation process was completed as scheduled; and
- key staff were retained and there was no interruption to business continuity.

However, the relocation has not been without problems:

- the project will not break even for another 20 to 30 years due travel and IT costs and lower than anticipated accommodation savings:
- higher travel costs - approximately 100 senior officials travel to London two to three times a week;
- videoconferencing has failed to replace the need for face-to-face contact;
- in cases where work is split across sites, it has been harder to ensure direction in policy development;
- some new initiatives and policy development have been driven from London rather than Leeds, which has had an impact on morale in the Leeds office.

HM Customs and Excise – relocation to Manchester, Liverpool and Southend-on-Sea - 1990

In 1990, HM Customs and Excise relocated policy work from London to Manchester, Liverpool and Southend-on-Sea. The relocation has been broadly successful but a number of issues have emerged:

- high volume of travel from the regional policy centres to London despite the use of modern IT facilities;
- loss of expertise in certain areas; and
- interaction problems between different parts of the same unit, which highlights the importance of successful communication.

Patent Office – relocation to Newport – 1994

The National Audit Office produced a report on the relocation of the Patent Office from London to Newport, Gwent in 1994. The objectives of the move were to reduce accommodation and staff costs by £6.5 million a year, to create 500 jobs locally and to improve staff recruitment and retention.

The National Audit Office concluded that most of the objectives were met. In particular, running costs savings of about £6 million per year were achieved from 1994 and survey work with customers found that quality of service was

improved in the long term.

Defence Procurement Agency – relocation to Bristol – 1995

The Defence Procurement Agency was relocated to Bristol during late 1995. The programme moved approximately 6,000 people from over a dozen buildings in London, Bath, Portsmouth and Portland to a single site. The programme has been successful:

- relocation was delivered to time, within budget and benefits exceeded the original performance targets;
- collocation of staff has enabled the identification of opportunities for efficiency improvements;
- Staff cost savings have exceeded 35 per cent;
- top management has been halved; and
- modern ICT systems and open plan office space facilitated new working practices.

Highways Agency - 2002

The Highways Agency's Corporate Plan 2001 set out the rationale for setting up a smaller central London headquarters and moving more staff into the regions. Work lacking any operational need to be in London was relocated across the regional network.

These changes are expected to deliver:

- more balanced mix of front-line and support services;
- improved working conditions for staff;
- more efficient, effective and economic use of office space; and
- improved customer service by locating staff nearer to their customers.