

# 8

## Shaping the pattern of government service

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### Summary

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

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

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

Locational decisions need to be informed by the following considerations:

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

### Introduction

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

### Alternative locations: the business case

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

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

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

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

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

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

### **King Sturge comparative assessment of locations<sup>1</sup>**

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

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

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

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

<sup>1</sup> 'Comparative Assessment of Locations' A report prepared for Sir Michael Lyons by *King Sturge* property consultants, January 2004, available at [www.hm-treasury.gov.uk/lyonsreview](http://www.hm-treasury.gov.uk/lyonsreview)

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

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

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

The work types considered by *King Sturge* were:

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

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

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

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

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

### Business benefits: the logic of a coordinated approach

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

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

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

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

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

### Business continuity planning

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

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

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

**Disaster planning in the US: lessons of September 11**

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

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

8.17 This analysis goes on to characterise the approach found wanting here as one based on a “traditional active/back-up model” and contrasts this with an “active/active” model based on widely separated active sites which can provide back up for each other with very little delay, and without the need for the physical movement of staff. Such an approach would address many of the vulnerabilities here identified. These and other models are also set out in recent UK guidance<sup>3</sup>.

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

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

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

<sup>3</sup> For example on the UK Resilience website at [www.ukresilience.info](http://www.ukresilience.info)

## Economic and regional policy implications

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

8.21 Government has an interest in:

- Ensuring that dispersal of activity from London and the South East secures the greatest possible economic impact, by reference to the optimum clustering of activities and taking account of the need for pay to be aligned with local labour market conditions;
- Boosting regional economic growth and narrowing disparities in growth rates between regions, in accordance with its high level target;
- Supporting growth in accordance with its Sustainable Communities plan, with a focus on the North, but also ensuring necessary housing growth in key locations in the South East;
- Reinforcing science-based economic clusters;
- Improving the performance of the English core cities – Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield<sup>4</sup>; and
- Securing greater devolution of decision-making to lower levels, including the support of elected regional assemblies where these are supported in regional referendums.

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

## Taking responsibility for the future pattern of service

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

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

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

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

8.25 In particular there is a need for:

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

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

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

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

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

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

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

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

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

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

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