

Relocation:

transforming where and how government works

Ian R. Smith

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Contents

	Page
Foreword	3
Chapter 1 Executive Summary	5
Chapter 2 Recommendations and next steps	13
Chapter 3 Introduction	17
Chapter 4 The current relocation programme	23
Chapter 5 2010: The case for change	31
Chapter 6 A vision for location	39
Chapter 7 Stronger Centralised Mechanisms	45
Chapter 8 Improving relocation costs and benefits	51
Chapter 9 Outcomes	61
Chapter 10 Case Study: Ministry of Justice	69

Foreword

Letter from Ian Smith to the Chancellor of the Exchequer

You asked me to lead an independent review on the scope for further government relocations from London and the South East as part of your drive to create a “smarter government”. I have now completed my review.

I have concluded that there remains considerable scope for further relocation and a continuing rebalancing of government activity between London in particular and the rest of the country. I believe that there is much activity in London that can and should move out.

I believe that it is possible to relocate a further 15,000 civil service jobs from London in the next five years. Over the next ten years, I recommend government should set itself a more stretching long-term goal to reduce the number of civil servants in London by at least a third. I believe it will need a reduction of this magnitude to achieve a proper balance and complete the transformation that Sir Michael Lyons started.

In my review, I have recommended a set of processes and incentives that will drive a robust and self-sustaining relocation programme which should produce a measurable and permanent shift of activity from London. This will give significant cost savings to the taxpayer, contribute to the economic vibrancy of the rest of the UK and through links with the private sector, help create centres of excellence that help build clusters of international competitiveness.

Finally, I must emphasise that the programme I have outlined is ambitious and will require strong leadership to deliver. Much good work has already been done since Sir Michael Lyons reported in 2004 and I have included examples in my report. I am confident that Ministers and Departments will rise to the challenge I have set.



Ian R. Smith

1

Executive Summary

Implementation of my recommendations will reduce the long-term complement of civil servants in London by a third.¹ This process will start with the relocation of 15,000 jobs from London over the next five years.

Delivering savings for the taxpayer is the major objective of the relocation processes that I recommend in this review. Relocation will also:

- stimulate **economic vibrancy in the regions of the UK** and through linkages with the private sector, encourage the creation of centres of excellence that help build clusters of international competitiveness and contribute to growth and jobs;
- bring government **closer to the people**; and
- promote **21st century, efficient and fit-for-purpose** public service campuses in the regions, contributing to the vision of a world-class *Digital Britain* with modern communications and flexible ways of working. Regional Ministers and the Wales, Scotland and Northern Ireland Offices, working with Regional Development Agencies (RDAs), Government Offices, the Devolved Administrations and Local Authorities, should take the lead in developing propositions for these campuses.

To deliver these benefits requires greater **strategic management** of the Civil Service – management that is more “directive” in driving greater **coordination** between departments to ensure more **joined-up government**.

The review recommends that government offices in London are **managed as an integrated campus** that will control redevelopment potential and release value from the estate. Consideration should be given to the role property vehicles might play in this process. **The management mandate will involve a contraction of the London estate** that will force activity in Whitehall down to an “irreducible core”, which is the point where the benefits of the “Whitehall Network” are at their most potent.

A continuous review of departmental and regional strategic estate plans is also recommended. This will drive these plans forward and encourage decisions that result in optimal cross-government solutions. Leadership should be provided by a **Cabinet Committee and the Chief Secretary to the Treasury with the remit to hold Departments to account for their location choices**.

¹ All references to London and South East refer to the two English regions of those names.

Introduction: building on *Well Placed to Deliver?*

1.1 *Putting the Front Line First: smarter government* announced that I would investigate the scope for further civil service relocations, analysing the operational and value for money arguments for moving further jobs out of London and the South East.²

1.2 I believe that a strong and well directed relocation programme can not only **save money** and make a major contribution to the **economic vibrancy of the regions and other parts of the UK**, but should also act as a **catalyst** for improving the efficiency and effectiveness of the Civil Service as a whole (saving taxpayers' money and improving the service to British citizens).

1.3 Throughout my review it has been clear that the principles of relocation, as set out in 2004 by Sir Michael Lyons in his report *Well Placed to Deliver?*³ are just as sound and relevant today. We need to build on the current programme of government relocations that has achieved significant success. The original target of 20,000 jobs relocated out of London and the South East was delivered nearly a year ahead of schedule and by its end the programme will have relocated around twenty per cent beyond that.⁴ Civil service numbers in London and the South East have fallen over the same period against a slightly rising trend nationally.⁵

1.4 But there is much more that can now be done.

1.5 The programme has been less successful in embedding the behavioural changes that are required to counteract the pull of London (the "**London Magnet**") and to promote regional vibrancy. In a much tighter fiscal environment the process must also deliver **better value for money**, reducing the costs of relocation and driving greater returns. In short, there is a need for more **strategic management** of, and **greater incentives** for, the Civil Service in order to drive activity that is more measured, better planned and coordinated across government.

1.6 While my timescales have not allowed for detailed analysis of departmental plans, there remains considerable scope for further relocation and a continuing rebalancing of activity between **central London in particular** and the rest of the country. To drive this forward, government should set itself a stretching long-term goal of reducing its overall presence in London by a third (against a current total figure of 85,000).⁶ It will need a reduction of this magnitude to achieve a proper balance between London and the rest of the UK. Reductions in the London estate should be even greater still, reflecting **better efficiency of use and changing working practices**. To this end, I strongly support the current Operational Efficiency Programme (OEP)⁷ and the space efficiency standards set by the Office of Government Commerce (OGC).

1.7 I have been asked to outline how to achieve a 10 per cent (13,500) relocation of civil servants from London and the South East over the medium term, which I have defined as five years. Over this period, I believe it is an ambitious, but achievable proposition, to relocate **15,000 jobs** from London if my recommendations are implemented in full.

1.8 The evidence of financial benefits is much weaker when considering the South East. The 53,000 jobs that are in the South East are mostly delivering a direct service to local citizens in this region (such as Jobcentre Plus) or are in areas requiring economic regeneration (such as

² *Putting the Front Line First: smarter government*, HM Government, December 2009.

³ *Well Placed to Deliver? Shaping the Pattern of Government Service*, Independent Review of Public Sector Relocation, Sir Michael Lyons, March 2004.

⁴ Latest progress on relocations available at www.ogc.gov.uk

⁵ *Civil Service Statistics 2003-2009* (published by Cabinet Office to 2005 and Office for National Statistics (ONS) to 2009)

⁶ *Civil Service Statistics 2009*, ONS, March 2009

⁷ The Operational Efficiency Programme (OEP) was launched by the Chief Secretary to the Treasury in July 2008 and published in April 2009. It reviewed five cross-cutting areas of operational spend: back office operations and IT, collaborative procurement, asset management and sales, property, and local incentives & empowerment. The results of the initial review stage found there was scope for £15 billion of efficiency savings per annum by 2013-14.

Hastings).⁸ Therefore, I do not believe that the 15,000 relocated jobs (medium term) and the reduction of a third (longer term) that I am targeting should come from outside London.

1.9 The current controls on moving activity out of London into the South East should be retained. However, there may be instances where some moves will be permissible, although these will always remain subject to Ministerial approval and be limited to specific predetermined regeneration or growth sites.

Decentralisation, the “London Magnet” and the economics of relocation

1.10 There is a need to break the “London Magnet” that has concentrated government in central London for centuries. There are four major arguments for decentralising the Civil Service from London – and these drive the major objectives of the Review:

- **Real estate costs in London are more than twice the average in the rest of the country.** London has 16 per cent of civil servants, but the estate costs of £600 million per annum are a quarter of the national total.⁹ The objective is to achieve direct savings for taxpayers;
- **Location outside of London facilitates the creation of scale efficient, 21st century clusters** that make the Civil Service more efficient and less costly to taxpayers. The objectives are to create more cost efficient and effective ways of working in the public sector and to use relocation to trigger these transformations;
- **The core activity of Whitehall is a great national asset** – the network and nexus effects are to be encouraged. Those activities that are not critical for the network effects should be moved out. This should include some policy roles, as has already happened in some departments (e.g. the Department for International Development and the Department of Health). The objective is greater decentralisation, **bringing central government closer to the people**, closer to other public services and exposed to a much wider set of influences and opportunities; and
- London is one of the wealthiest regions in Europe and does not need the economic boost provided by civil service activity.¹⁰ The objective is to make public sector activity contribute to **the economic vibrancy and vitality of the rest of the UK** in conjunction with private sector investment.

1.11 The nature of government and its administration tends to draw civil servants into London. It is important that we understand these “**systemic**” factors, if we are to break them. Some of the major forces at work are:

- the historical location of government in Whitehall and Westminster;
- the need for Ministers to be close to the Division Bell, which drives the number of civil servants who serve them to be located in central London. (Over 60 per cent of all Senior Civil Servants are in London¹¹);
- in turn this tends to draw the departments into central London;

⁸ *Civil Service Statistics 2009*, ONS, March 2009

⁹ Estimate based on e-PIMS data

¹⁰ Oxford Economics

¹¹ *Civil Service Statistics 2009*, ONS, March 2009

- greater career opportunities are perceived to exist as a result of working in London;
- the attractions of London as a place to live; and
- concerns over the business disruption of moving large numbers of jobs.

1.12 The costs of moving civil servants can be very high. People costs can be many times greater than per capita property costs, which is why the direct economic benefits of relocation can be difficult to demonstrate. In particular, relocating organisations can face significant redundancy costs. These could have been mitigated by more robust redeployment strategies and longer-term planning that would have allowed natural wastage to reduce the redundancy liability. Relocation planning is vital to lower costs and to avoid the high one-off costs that result from unplanned events. Regions and relocating organisations have often had insufficient time to plan effectively and the lack of time to integrate relocations has proved expensive.

1.13 Departments are responsible for managing their own buildings within London. While OGC exercises a central coordination role, there is currently no strategic plan in place to actively manage the estate and in particular to drive down the size of expensive central London accommodation to the minimum necessary to support Ministers and core Whitehall activity.

Breaking the “London Magnet” effect and changing the economics of relocation

1.14 My conclusions are that the economics of relocation do not currently work well enough and that the systemic factors drawing the Civil Service into London remain very strong.

1.15 Therefore, my review’s recommendations focus on these two key issues:

- The need for new “strategic” and “corporate” (in short, “directive”) mechanisms and processes that will break the “London Magnet” effect; and
- The need to make the costs and benefits of relocation more compelling.

1.16 In particular, I believe that London needs a strategic estates plan along the same lines as those currently being prepared for the other English regions. This must be drawn up quickly and should identify concrete actions that will result in efficiencies and the realisation of capital receipts. A core objective will be to reduce civil service numbers in the expensive and congested London area and to promote economic development in the rest of the UK. The mechanism that we recommend to bring this about is **that the civil estate in London is capped and this is managed down over time** (especially as lease breaks are triggered). Departments will then have to justify their use of a scarce and diminishing resource and will be allocated a space allowance according to their business need.

A vision for location

1.17 In this report, I have set out my vision of how location choices can be used to transform the Civil Service, not in isolation, but as part of broader programmes including Civil Service in the English Regions (CSER), the Shared Services Initiative, Property Asset Management (PAM) and *Digital Britain*.¹² I envisage:

- **a much more streamlined and tightly knit Whitehall centre**, comprising Ministers and those activities that really need to be in close proximity to support them, concentrated in a small number of long-term, fit for purpose buildings with sharing

¹² *Digital Britain*, Department for Culture, Media and Sport, June 2009

between Departments (and local government and other public sector bodies) the norm rather than the exception;

- remaining activities which need to be close to London being located in areas where operating costs are much lower and where they can contribute to wider regeneration within specified areas in London and the South East (such as **Thames Gateway and Stratford in East London**);
- each region developing their property asset management strategies, working with local government on the Total Place model. Regional Ministers should provide oversight for estate strategies for the future location of government activity in their region and the development of specific relocation propositions. These strategies should develop plans for **scale efficient, competitive regional campuses and clusters** - not necessarily on a single site or city – but a model applied flexibly to suit their particular infrastructure and economic geography;
- agencies and other public bodies providing national services should be headquartered alongside other government activity outside London and the South East;
- power and career opportunities will only truly move out of London when significant parts of the **core policy departments** are moved. Campuses, therefore, must contain much more than transactional and support activities if they are to become truly self-sustaining, contribute fully to the economic vitality of their surroundings and achieve critical mass; and
- face-to-face activities should be located to best serve the needs of the customer and optimise use of the wider public estate through initiatives such as Total Place.

1.18 It is difficult to overestimate the importance of **Ministerial behaviour** in strengthening the “London Magnet”. For many years the necessity for senior staff to be in London to meet Ministers has been a significant barrier to relocation. With modern technology, some departments notably Health and International Development have made a success of their regional presence, and advancements being implemented via **Digital Britain** will make it easier for others to follow their lead. Maintaining the momentum will require the active support of Ministers who must be more flexible over the appropriate use of technology and the need for face-to-face meetings.

1.19 My report is based on the presumption that Parliamentary processes are not changed. However an increasingly decentralised Civil Service will benefit greatly from some Ministers themselves being based in the regions. I believe there is a case for considering how this might be achieved in practice and the role that digital technology can play in making this a reality.

1.20 There are no systematic processes in the Civil Service for undermining the power of the London magnet. Therefore, I have concentrated in my review on setting out those processes and incentives that will drive a robust and self-sustaining relocation programme which over time will deliver a measurable and permanent shift of activity from London to other parts of the UK, acting as a catalyst for wider change in the way government works.

Stronger centralised mechanisms

1.21 Departments must continue to decide on the operational requirements required to discharge their business most effectively and efficiently. This includes where it is conducted and I am not proposing to alter that accountability. However, such operational decisions must be taken transparently within a wider framework of collective agreement by Cabinet and Cabinet Committees on policy issues and corporate governance of the Civil Service and not in isolation.

1.22 The future relocation programme should be more stringently controlled from the centre, both across the Civil Service as a whole and within individual departments. This will ensure that the civil estate is more **strategically managed**, allowing the regeneration and cost benefits of relocation to be fully realised. Key elements are:

- a **centralised strategic planning process** that drives the Departments and regions to produce and share their strategies, and which also has the power to drive compliance. Whilst beyond the remit of this review, this strategic planning process will serve the broader objective of joined up government;
- the central London estate should be treated as a **single campus** that is managed strategically to deliver cross-Departmental efficiency. I welcome the setting up of the Shareholder Executive Property Unit following the OEP recommendations and I see their partnership with OGC as vital in bringing about the objective of greater strategic management;
- this process should be linked to the next and subsequent **Spending Reviews** so that it is thereby embedded in government's business planning processes;
- all Departmental relocation strategies agreed by this process should be **made public**. This will create a transparent relocation pipeline to help regions and other parts of the UK improve how they bid for decentralised civil service activity;
- a **regular forum within each region or part of the UK** should structure relocation propositions that deliver better value for money, integrated with the emerging regional estates plans. Regions need to make much better cases for relocation: not just lobbying for jobs, but also being specific about how they will create hubs and scale efficient clusters that build regional competitiveness;
- existing property controls for London and the South East should be extended nationally to drive the regional estates agendas. Outside London, approval of business cases arising from the property controls should lie with the appropriate Regional Minister, advised by the Government Office and OGC;
- departments should take direct responsibility and accountability for the location choices of their **Agencies and Non-Departmental Public Bodies (NDPBs)**; and
- **business transformation** should be at the heart of any relocation.

1.23 For clarity, I believe that the strategic planning process should overrule departmental plans if this is in the broader interests of the taxpayer.

Relocation costs and benefits

1.24 Relocation can be expensive both financially and in terms of business disruption. In a time of pressure on the public purse, any future relocation programme will have to compete against other spending priorities, although it must be considered as an integral part of other modernisation initiatives. Fundamental to this review are considerations about how to ensure that relocations can be made more affordable in this new environment. I have considered this in three ways:

- direct cost benefits;
- departure cost benefits; and
- destination cost benefits.

1.25 **Direct cost benefits** will be improved if the upfront investment costs can be lowered by:

- **reducing** relocation, staff and redundancy costs; and
- providing **central funding** support based on improved business cases.

1.26 Departure cost benefits will be improved if there is better strategic management of the civil estate. Strategic control will:

- ensure that individual property commitments do not restrict relocation or efficiency opportunities if they are in **the taxpayers' interest**, breaking the link between occupier and property, and allowing more flexibility on exit; and
- facilitate **new ownership models for property**, improving the value of the property portfolio by facilitating more comprehensive redevelopment opportunities. Again, we are encouraged by the setting up of the Shareholder Executive Property Unit with a clear mandate to pursue this objective.

1.27 Destination cost benefits will be improved by better managing the economic benefits to the Exchequer of regional locations. Benefits will be released by:

- creating a **transparent relocation pipeline** that will allow regions and other parts of the UK to plan more strategically;
- regions and Home Nations building on their emerging **estate strategies** to create specific propositions for Departments;
- incentivising the creation of **scale efficient campuses and regional clusters**. These will provide career opportunities and build centres of excellence that encourage private sector investment and improve regional competitiveness; and
- campuses providing additional efficiencies through **changed working practices**, shared services, and more flexible use of space.

Leadership

1.28 The programme I have outlined in this report is ambitious and will require strong leadership to deliver at both Ministerial and Permanent Secretary level. This should be provided by a **Cabinet Committee and the Chief Secretary to the Treasury** with the remit to hold departments to account for their location choices.

1.29 Government should strengthen the role of **Regional Ministers** and consolidate those structures that could support their enhanced role. This will include taking ownership of the strategies for the future disposition of government activity in the region and the development of relocation propositions. This will set an important example in terms of decentralising power from Whitehall and ensure that each region adopts a coordinated response to relocation.

1.30 Scotland, Wales and Northern Ireland are equally important as potential recipients of further central government activity. Under the leadership of the respective Secretaries of State, the UK Government, working with the devolved administrations as appropriate, should seek to establish similar arrangements as I have outlined for the English regions to suit their Home Nation.

1.31 In the following section, and in more detail in the main report, I have set out my recommendations. If these are followed in full, I believe they have potential to transform how and where government works in the future.

2

Recommendations and next steps

2.1 I am recommending mechanisms that will strengthen the strategic management of the relocation process. The purpose of these mechanisms is to improve the three categories of relocation cost benefits so that the process is sustainable. I have grouped the recommendations into these three categories, as shown in Box 2.A.

Box 2.A: Recommendations

Direct cost benefits

Recommendation 1: The financial case for relocation must be made more compelling. This will require much better management of employee costs, reducing the total redundancy liability by planning relocations over a longer time period, improved redeployment management and initiatives that make it easier for staff and their families to relocate.

Recommendation 2: I reiterate the recommendation made by Sir Michael Lyons that government should align civil service pay with local labour market conditions. “Failure to make progress on locally flexible pay will limit the efficiency gains from dispersal and could undermine the economic benefits for receiving locations”.¹

Recommendation 3: Consideration should be given to ways in which up front relocation funding, based on these improved economics, could be provided as part of the Spending Review. Provision of these funds would need to be backed up with stringent conditions to ensure best practice is followed, the pay back period is short and that relocation offers good value for money when compared to other spending options.

Departure cost benefits

Recommendation 4: Departments should be able to move staff from central London to regeneration/growth sites in other parts of London and the South East in order to generate efficiency savings. However, a business case justifying these moves must still be submitted to Ministers for approval.

Recommendation 5: Government should view the London civil estate as a single campus that is managed strategically to deliver cross-departmental efficiency. Consideration should be given to how government property vehicles can contribute to this process. This will ensure that offices are exited in a controlled fashion that delivers the best overall return for the taxpayer. The link between the departmental occupier and a specific property lease or PFI should be broken.

¹ *Well Placed to Deliver? Shaping the Pattern of Government Service*, Independent Review of Public Sector Relocation, Sir Michael Lyons, March 2004.

Recommendation 6: The size of the London civil estate should be capped at a progressively lower level with departments made to justify on strict business grounds the need to retain such expensive space and to identify all activity that could be moved out. In aggregate, these plans should deliver the relocation of 15,000 posts from London within five years of implementation.

Destination cost benefits

Recommendation 7: All Departmental relocation strategies should be made public so that there is a transparent relocation pipeline to help regions and other parts of the UK improve how they bid for decentralised civil service activity.

Recommendation 8: OGC should establish with each Government Office for the Regions a regular forum to structure relocation propositions that deliver better value for money. These should be integrated with the successful Civil Service in the English Regions programme and be accountable to Regional Ministers or the Council of Regional Ministers. Regions need to make much better cases for relocation: not just lobbying for jobs, but also identifying how they will create scale efficient clusters that build regional competitiveness. Under the leadership of the respective Secretaries of State, the UK Government, working with the devolved administrations as appropriate, should seek to establish similar arrangements as I have outlined for the English regions to suit their Home Nation.

Recommendation 9: Departments should take control of all location decisions for their departmental family (Agencies and NDPBs).

Recommendation 10: The presumption that all new government organisations should be located outside London and the South East should be strengthened. There should be a clear definition of what constitutes a ‘new’ body which includes organisations that are being merged. A location strategy must be agreed as part of the process for sanctioning the setting up of any new body.

Recommendation 11: A review should be launched that links the *Digital Britain* government initiatives to these relocation aspirations to determine what state-of-the-art operating clusters for the Civil Service would look like and to identify tangible steps for creating them throughout the country. Consideration of how Ministers work should be a key element of this analysis.

Both Departure and Destination cost benefits

Recommendation 12: Existing property controls should remain in place and be extended nationally to drive regional consolidation and clustering. Outline business cases must be submitted at least three years before the property event.

Recommendation 13: The high level location principles set out in this review should be agreed at Ministerial level so that the overall framework for the future geographic distribution of government activity is set.

Recommendation 14: Leadership should be provided by a Cabinet Committee and the Chief Secretary to the Treasury with the remit to hold departments to account for their location choices.

Next steps

2.2 The following actions need to be urgently completed in preparation for the next Spending Review:

- a simple, consistent and agreed functional definition of government activity to help determine by Department those activities that long term, (a) should remain in central London or (b) need to be close to central London to support such activity or (c) should be in London to provide front line services or (d) have no need to remain in London;
- a strategic estates plan for London, setting out a number of costed scenarios for significant size reductions over a five year period, concentrating on expensive central London property; and
- departments to justify their requirement for London space on the basis of their functional analysis against the options for a much reduced property portfolio. Mirroring this, regional and Home Nation forums should be established to ensure close alignment between their economic strategies and departmental relocation plans.

2.3 To create an ongoing and sustainable relocation programme the above steps should also be an integral part of all subsequent Spending Reviews.

3

Introduction

Putting the Front Line First: smarter government announced that I would investigate the scope for further civil service relocations in the medium term, analysing the service delivery and value for money arguments for moving further posts out of London and the South East.

The Government's current relocation programme, based on the recommendations of Sir Michael Lyons, has delivered good progress and I have been very clear throughout this review that we need to build on this rather than change direction.

I believe that a strong and well directed relocation programme can make a major contribution to the economic vibrancy of the regions and act as a catalyst for transforming the way the Civil Service works as a whole.

Background

3.1 In December 2009, I was asked to lead an independent review on the scope for further government relocations from London and the South East reporting to the Chancellor of the Exchequer and the Prime Minister by Budget 2010. Specifically, I was asked to look at the value for money and service delivery arguments for relocating further civil service posts. My terms of reference are shown in Box 3.A.

Box 3.A: Terms of Reference

"Ian Smith will lead an independent review to produce recommendations on:

- generating savings through relocating further civil service posts out of London and the South East, where there is no operational reason for being there, together with specific proposals to ensure relocation directly contributes to regional and local economic regeneration;
- delivering a step change in the transparency of government relocations, involving both the development of a transparent long-term pipeline, and launch of a new forum to regularly bring together local areas and OGC to structure relocation propositions that deliver better value for money;
- the mechanisms that could be developed to relocate at least 10 per cent of current posts in the medium term, building on the current Relocation Programme which was created following Sir Michael Lyons' report in 2004;
- what departments need to do to be able to make the most of opportunities to rationalise their London and South East estate; and
- how government can manage its estate more effectively to reduce barriers to relocating staff, whilst ensuring that up-front costs are minimised; and
- what mechanisms and incentives can be introduced to ensure that any relocation programme is self-sustaining and on-going.

The review should also aim to deliver a specific, significant relocation example in time for Budget, demonstrating the seriousness of the Government's intent."¹

3.2 I focused on the scope for further relocations in the following areas of the public sector:

- government departments (such as HM Treasury or Department of Health);
- non-Ministerial Departments (such as Food Standards Agency or Ofsted);
- Executive Agencies (many of which provide services to the citizen, such as Jobcentre Plus and HM Courts Service); and
- executive non-Departmental Public Bodies or NDPBs (for instance the Care Quality Commission or the Competition Commission).

3.3 I have not considered the smaller NDPBs, such as the Advisory or Tribunal NDPBs. Departmental Agencies and NDPBs are collectively known as Arms Length Bodies (ALBs). As most employees of Executive NDPBs are not civil servants I have maintained the distinction between them and other civil service organisations in this report.

3.4 Like Sir Michael Lyons, I decided that face-to-face public services not provided directly by central government, such as those in NHS trusts, schools, police forces, local authorities and so forth were outside the scope of my review. The current disposition of the Civil Service in the UK is shown in Table 3.A.

¹ Hansard (Citation: HC Deb, 29 January 2010, c1143W)

Table 3.A: Geographic breakdown of Civil Service numbers

	Civil Service numbers
London	84,390
South East	53,180
South West	53,760
West Midlands	34,130
North West	64,900
North East	36,130
Yorkshire and the Humber	40,290
East Midlands	26,120
East of England	30,290
Wales	36,220
Scotland	50,660
Northern Ireland	4,570
Not reported and Elsewhere	9,790
Total	524,430

These figures do not include staff in NDPBs who are also within the scope of this review.

These figures do not include the Northern Ireland Civil Service that services the devolved administration.

Source: Civil Service Statistics 2009, Office for National Statistics (ONS), March 2009

3.5 Consistent with *smarter government*, Sir Michael Lyons' report and the subsequent relocation programme, all references to London and the South East in this report refer to the two English regions of those names.

My approach

3.6 I was asked to report my findings and recommendations by Budget 2010. This tight timeframe has affected the way I have conducted my review.

3.7 I have not revisited the excellent work that was done by Sir Michael Lyons in his 2004 review of relocation, *Well Placed to Deliver?*, in which he laid out the compelling case for moving government activity from London and the South East. Not once, throughout my consultation process, has it been suggested that relocation activity should cease. The underlying assumption that there is still a fundamental imbalance between the levels of government activity in London compared to the rest of the country is still as true today as it was in 2004.

3.8 Therefore, I have concentrated my efforts on assessing the successes and limitations of the current relocation programme. I have used my findings to develop recommendations that set out how this work should be carried forward, building on what has been achieved so far.

3.9 I have not tried to produce a detailed roadmap, department by department, that builds to a particular relocation target. In the short time available, I did not think it sensible to ask departments to take such fundamental business decisions. Individual departmental contributions must instead be developed as part of the implementation following this review.

3.10 I have focused on developing a set of processes and incentives that will drive a robust and self-sustaining relocation programme. If fully implemented, I believe that they will deliver cost savings and produce a measurable and permanent shift of activity from London to other parts of the UK. Relocation can be expensive, both financially and in terms of business disruption. In a time of scarce resources, any future relocation programme must be cost effective. I have

concentrated on ensuring that future relocations are affordable and can justify the required upfront investment.

3.11 I have consulted as widely as I could during the time available. This has included a representative sample of key relocation stakeholders including Ministerial departments; Permanent Secretaries; relocation experts; organisations that have relocated; regional representatives; regional economic/regeneration specialists and civil service union representatives.

My context: *Putting the Front Line First: smarter government*

3.12 The Government's White Paper, *Putting the Front Line First: smarter government*, provided the context in which my review took place.

3.13 *Smarter government* set out a plan for reforming government. With the help of new technologies, it outlined how we, as a country, can meet the challenges of the 21st century and create responsive public services led by citizen demand. It illustrated how public services could be delivered in a way that maintained their quality, but brought down their cost. As the Prime Minister said in his foreword, "This will be essential to help meet our commitment to halve the public deficit in four years."²

3.14 A smarter centre of government needs to be more strategic about the management of its property portfolio. The Operational Efficiency Programme (OEP) property strand recommended a more strategic approach to managing the whole public sector estate. *Smarter government* laid out a similar approach based on three core principles:

- Managing property assets more strategically, including where appropriate co-locating Departments and merging back offices in locations outside the South East;
- Retaining functions in Whitehall only where they require Ministerial support or personal interaction; and
- Harnessing modern working practices including making more use of remote and hot-desking and reducing property use.³

3.15 Applying these principles will place public servants closer to many of the communities they serve, release capital efficiencies and increase value for money. However, to achieve these objectives the Government will have to make fundamental changes to the way it does business.

The need for change

3.16 Over the last five years the current relocation programme has measurably reduced the size of government in London and the South East against a rising trend overall and has more than delivered against the target set by Sir Michael Lyons. Nevertheless, I believe that there needs to be a step change in government's approach to relocation. Without this change government will struggle to meet the challenges of the current fiscal environment and to adapt to the opportunities afforded by modern technology in transforming the way we all work.

3.17 Despite the progress of the last five years, London and central London specifically, still remains a magnet for government activity. The attractions are systemic and continue to make it difficult to obtain a proper balance between London and the rest of the country. Proximity to Ministers, the fact that most Senior Civil Servants are still in London (which is perceived as the

² *Putting the Front Line First: smarter government*, HM Government, December 2009.

³ *Putting the Front Line First: smarter government*, HM Government, December 2009.

best place for career opportunities) and the business and personal disruption that can accompany relocation are all barriers to moving activity away from the capital.

3.18 There has been limited progress in weakening the strong demand for expensive office locations in central London. This comes at a disproportionate cost to the taxpayer: one pound in every four spent on government office accommodation nationally is spent within a mile or so of Whitehall.⁴

3.19 There is still too great a concentration of government activity in London that could and should be carried out better and more efficiently elsewhere. I do not believe that moving departments in their entirety from central London is a sensible solution. However, a much smaller and more compact Whitehall would create a more effective, efficient and cheaper centre of government. For this to happen much of the activity that does not need to be close to Ministers should be relocated out of London.

3.20 I believe that much more needs to be done to ensure that a future relocation programme maximises the potential benefits for economies in other parts of the UK. A more stringently managed programme that delivers clusters of activity to attract further public and private sector investment, will help release these benefits. A future relocation programme should act as a major catalyst in changing the way government carries out its business – simply moving the same activity to a different part of the country is not enough.

3.21 In my discussions, it has become clear that the affordability of a future relocation programme will be a key issue. I do not believe that the economics of relocation are sufficiently compelling. Relocations incur significant upfront costs while savings are accrued afterwards. I have therefore suggested measures to reduce these costs.

3.22 In conclusion, I believe that a properly directed and managed programme of further relocations must be one of the essential pre-requisites for the delivery of government services fit for the 21st century and the realisation of the vision set out in *smarter government*.

Acknowledgements

3.23 Throughout the course of this review I have been supported by a small team made up of officials from the Office of Government Commerce and HM Treasury. The team was headed by Mike Rainsford and included Navinder Jaswal, Robert Mackie, Helen Purnell and Clive Shore (King Sturge). I am grateful for all their help.

3.24 Many others contributed to the review at workshops, seminars and throughout the consultation process. I am grateful to everyone who has helped me in this review for their time and the contributions that they have made.

⁴ Estimate based on e-PIMS data

4

The current relocation programme

Sir Michael Lyons recommended that the Government should take a wider more strategic view of relocation than had previously been the case.

The current relocation programme achieved significant success. The programme delivered its original target of 20,000 jobs relocated out of London and the South East nearly a year ahead of schedule and by the end of the programme in March 2010 will have relocated around 20 per cent more.

However, the programme has only been partly successful in embedding the specific behavioural changes required to maximise the potential efficiency savings and regeneration benefits of relocation.

Throughout my review it has been made very clear to me that the basic principles of relocation, as set out by Sir Michael Lyons, are still sound and relevant. However, the mechanisms and incentives that trigger individual relocations need to be more strategic to deliver long-term benefits as opposed to tactical “wins”.

Origins of the current relocation programme

4.1 Sir Michael Lyons was asked by the Chancellor of the Exchequer and the Deputy Prime Minister in April 2003 to investigate the scope for relocating national government activities out of London and the South East, in support of a renewed Government commitment to realising the efficiency and regional benefits of dispersal.

4.2 In March 2004 Sir Michael Lyons reported his findings in his report *Well Placed to Deliver?* He made the following observations and recommendations.

Box 4.A: Summary of Sir Michael Lyons' recommendations

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

London as capital needs a governmental core supporting ministers and setting the strategic policy framework. In every other respect the status quo is open to challenge. If the Government wishes to make a significant impact on the pattern of its locations it will need to take firm action. I have proposed ten recommendations as follows:

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

location preferences.

- 9 The Government office portfolio must be much more tightly managed. In particular, exits from London should be coordinated to ensure overall value for money and to strengthen individual relocation business cases.
- 10 The Civil Service needs a more coordinated approach if it is to minimise the costs and the adverse impacts on staff associated with relocation and redundancy.

These actions will help create a better pattern of government. By setting a good example, the Government may also promote more rigorous thinking about location in the wider economy, in the interests of UK competitiveness.¹

4.3 The recommendations put forward by Sir Michael Lyons were accepted and resulted in a five year relocation programme, ending on 31 March 2010. Responsibility for the delivery of the individual relocation targets lay with the departments concerned, with the overall programme being managed by OGC.

4.4 Progress towards the headline relocation target has been announced at every Pre-Budget Report and Budget.

Outcome of the current relocation programme

4.5 Sir Michael Lyons set a target of 20,000 jobs, as a first tranche, to be relocated out of London and the South East by March 2010. The programme achieved its original target nearly a year ahead of schedule and by completion will have relocated around 20 per cent more.

4.6 The relocated jobs have been distributed across all of the English regions, Northern Ireland, Scotland and Wales as shown in Table 4.A.

Table 4.A: Regional Dispersal of Relocations

Destination	Reported Relocations: December 2009
East Midlands	1,186
East of England	72
North East	1,372
North West	4,794
Northern Ireland	210
Scotland	1,123
South West	3,558
Wales	3,629
West Midlands	2,360
Yorkshire and The Humber	4,262
South East ¹	-1,025
Total²	21,541

¹ To ensure maximum clarity in public reporting, we have netted off 784 posts which the MoD have reported to us as moving back into the South East.

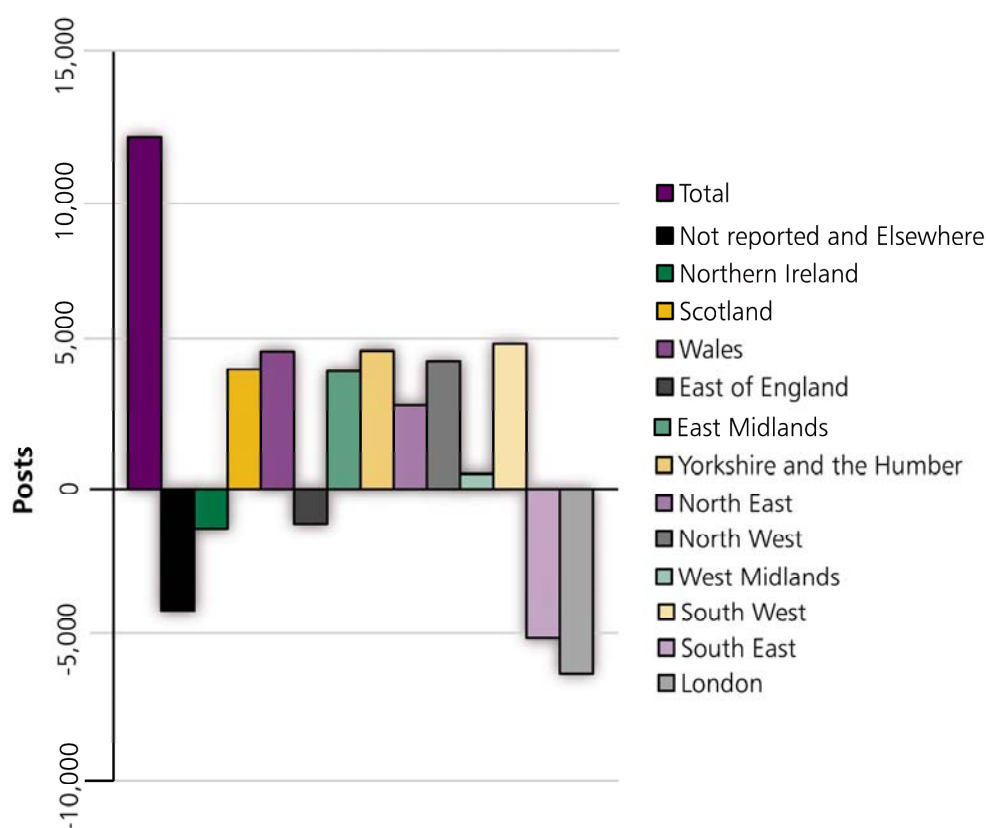
² The total towards the target excludes moves out of London to the South East.

Source: Office of Government Commerce (OGC), www.ogc.gov.uk

¹ *Well Placed to Deliver? Shaping the Pattern of Government Service*, Independent Review of Public Sector Relocation, Sir Michael Lyons, March 2004.

4.7 As a result, civil service numbers in London and the South East have fallen by 7 per cent and 9 per cent respectively between 2003 and 2009 against a rising trend overall of 2 per cent and an increase in most other parts of the UK as shown in Chart 4.A.¹

Chart 4.A: Change in Civil Service numbers by region 2003-09



Source: Based on Civil Service Statistics 2003-2009 (published by Cabinet Office to 2005 and ONS to 2009)

4.8 The government estate in London has been reduced by 216,000 sq m since 2004 as a result of the implementation of London and South East property controls. This represents a saving in rental costs alone of £41 million annually and about twice that in total occupation costs. The majority of this accommodation was in central London. The buildings vacated included Ashdown House (17,881 sq m and £7 million per annum rent), Selbourne House (13,317 sq m and £2.2 million per annum rent) and Metropole Building (18,000 sq m and £2 million per annum rent).²

The mechanisms and incentives for delivery

4.9 As part of the review process Sir Michael Lyons agreed individual relocation targets with Departments (See Table 4.B.). Each Department was responsible for delivering its own target by March 2010. Departments had to identify which activities needed to be in London. Jobs which did not require a London location were relocated. Departmental breakdown of relocation targets and post delivered.

¹ Civil Service Statistics 2003-2009 (published by Cabinet Office to 2005 and ONS to 2009)

² Estimate based on e-PIMS data

Table 4.B: Departmental breakdown of relocation targets.

Department	Agreed Lyons Target	Delivered: December 2009
Education and Skills	800	1,395
Health	1,110	1,222
Home Office	2,200	3,141
Ministry of Justice (formerly DCA)	200	854
Ministry of Defence	3,900	3,776
Culture, Media and Sport	600	952
Work and Pensions	4,000	4,377
Chancellor's Departments	5,050	3,929
Cabinet Office ¹	250	92
Communities and Local Government (formerly ODPM)	240	255
Crown Prosecution Service ²	-	43
Environment, Food and Rural Affairs	390	699
Foreign and Commonwealth Office ³	450	30
International Development	85	88
Northern Ireland Office	8	8
Trade and Industry ⁴	685	642
Transport ⁵	60	38
Total	20,028	21,541

¹ Includes 25 Charity Commission relocations.

² The Crown Prosecution Service had no relocation target at the start of SR04, but later agreed a target of relocating 20 posts out of London and the South East by 31 March 2008

³ Does not include relocations out of London to Hanslope Park

⁴ Includes 3 OFT relocations

⁵ Does not include relocations out of London to Hastings

Source: OGC website, www.ogc.gov.uk

4.10 OGC managed the overall programme. It was responsible for monitoring that departments delivered their agreed relocation targets as well as tracking the posts moved to provide a clear audit trail. OGC has also promoted wider awareness of the programme through an annual conference. These were designed to bring together departments, local authorities and professional advisers to share best practice and to understand the Government's wider perspective.

4.11 OGC also acted as the primary source of information for all those involved in the relocation process. It provided advice through its website, including best practice guidance, case studies and opportunities for cities wishing to be considered as relocation destinations to provide data for departmental use.

4.12 The relocation programme was backed by a robust set of property controls, designed to reduce the overall size of government office accommodation in London and the South East. They ensured that the relocation programme was aligned with the property position. It was imperative that the size of the estate should be reduced in line with falling numbers so that real efficiency gains could be made on the civil estate that remained in London and the South East.

4.13 The property controls, promulgated by means of a formal HM Treasury instruction to Departments (DAO 05/05) required any organisation that wished to extend the Government's property commitment in London and the South East above a de minimus level to submit a formal business case for approval to the Chief Secretary to the Treasury.

4.14 These business cases not only included a requirement to show that the business need could only be met by extension of the existing government property commitment, but also required a robust justification as to why the activity concerned should be located in London or the South East at all.

4.15 Sir Michael Lyons' roadmap, supported by the property controls, became the core delivery mechanism for the current relocation programme and provided a means of challenging the location of government business.

Box 4.B: Case Study: the relocation of the Office for National Statistics out of London to Newport

The Office for National Statistics (ONS) has relocated around 900 posts from London since 2004 with around two thirds moving to Newport in South Wales. This equates to nearly 90 per cent of London based staff over the course of the current relocation programme.

In April 2004 ONS operated from three locations; London, Newport and Titchfield. The London building acted as a corporate headquarters, housing the National Statistician, the majority of directors and around 1,000 civil servants, a large proportion of whom were at relatively senior/professional grades.

The situation is now very different. Newport is the corporate headquarters and the base of the National Statistician. All ONS Directors are now based in either Newport or Titchfield. Currently around 100 posts remain in London, but by the end of 2010 all ONS statistical work will have transferred from London.

The decision to relocate was made on both economic and business grounds:

- relocation has triggered transformational change within the organisation by allowing ONS to assess all its business operations strategically and to introduce more efficient work processes. For example, relocation of work on social surveys led to improved documentation of work processes and provided the stimulus to re-engineer the processes and improve productivity by 10 per cent;
- by rationalising its London estate, ONS will have dramatically reduced its accommodation costs by over 50 per cent (£7 million per annum) by 2012;
- staff in Newport and Titchfield now undertake a wider range of statistical work, which provides both a better understanding of the end to end statistical process and enhances career opportunities; and
- the strategic nature of the move, spread over five years ensured that the quality and timeliness of all regular statistical outputs has been maintained throughout the transition and has reduced the cost of the relocation.

By working with partner organisations such as the Welsh Assembly Government, Newport City Council and Newport Unlimited, the ONS relocation has helped trigger the emergence of a regional hub of civil service organisations. This in turn has provided opportunities for cross-departmental efficiencies and career development across South Wales. The relocation has acted as a catalyst for regeneration, encouraging a more strategic approach to economic development across the South Wales sub region.

Relocation in practice

4.16 While the current programme and its underlying mechanisms have been very successful in moving activity from London and the South East, progress on some of the wider objectives of Sir Michael Lyons' report has been slower.

4.17 A strategic relocation programme relies on "push" factors to drive posts out of London and "pull" factors to draw posts into the regions. Within the current programme there is an imbalance. The programme developed very strong push factors at an early stage, such as the relocation targets and property controls. The "pull" factors did not develop at the same rate and have lagged behind. This has resulted in the current programme being dominated by tactical rather than strategic relocations.

4.18 Location decisions have been the responsibility of individual departments, agencies and NDPBs. Understandably, organisations have based their decisions on their own specific business needs. With each organisation delivering different services this has meant that individual relocations have been carried out in isolation rather than as part of a wider strategy. Consequently, the regeneration potential of relocating government activity has not always been realised because the opportunity to bring together similar activity from individual bodies or within the same departmental families to gain critical mass and efficiencies has been missed.

4.19 Nearly all the jobs moved under the current relocation programme were either operational or corporate services. While it is clearly sensible to move such activity out of high cost areas in London and the South East, it also shows that little of the main policy functions in departments have moved.

4.20 Overall, Sir Michael Lyons' recommendations laid out an ambitious plan. This aimed to create a relocation programme that would make a significant contribution to the reform of public services; reducing economic disparity between the regions and increasing national competitiveness.

4.21 Over the course of the last five years much has been achieved. A start has been made on redressing the balance between London and the rest of the UK and a significant number of jobs have been moved. Most crucially, there has been a major behavioural change in the way that government views its location. The assumption that government business should be allowed to concentrate unchecked in London and the South East has been challenged. There is now an expectation across government that organisations have to justify their presence in London on the grounds of business need. Those that cannot should be located elsewhere.

5

2010: The case for change

There is significant scope for further relocations and a continuing rebalancing of activity between London and the rest of the country. However, the existing mechanisms will not be sufficient to drive such a programme forward.

There is much less scope for relocating further jobs out of the South East. Consequently, there is a case for relaxing (but not removing) the current policy here.

Government must build on initiatives that:

- take a more holistic view of civil service activity in the English regions and across the UK; and
- encourage departments to take a more strategic view of the property portfolio across their whole Departmental family.

There is a need for a much more strategic approach to future relocation activity to help build clusters of like activity with critical mass.

The relocation process should also be much more transparent to enable regions and other parts of the UK to develop propositions targeted at specific government activity and to speak with one voice as they begin to develop strategic partnerships.

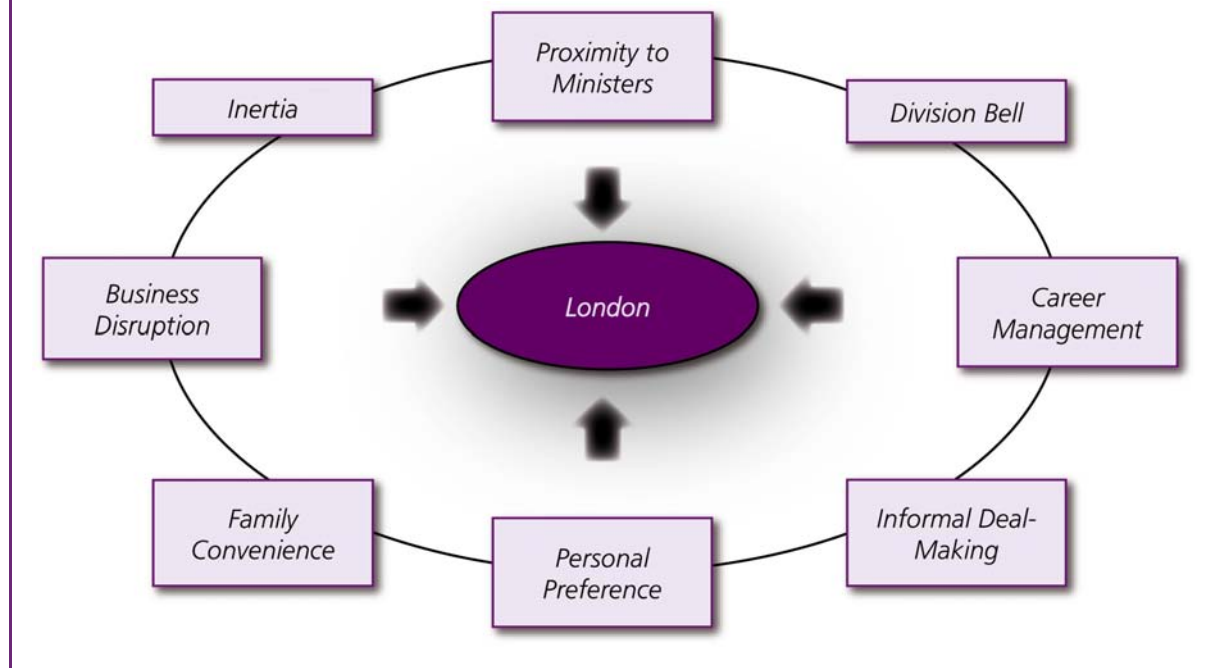
London

5.1 Since 2004 the current relocation programme has significantly reduced the size of the Civil Service in London and the South East.

5.2 However, London and central London in particular, continues to draw and retain government activity. There are deep rooted and systemic reasons for this. Whitehall is the historic seat of government. Ministers need to be close to Parliament and the Division Bell and there is a perception that the majority of Departmental functions need to group around them. This in turn drives many of the delivery functions (agencies and NDPBs) to seek their own headquarters in expensive London locations to ensure that they maintain strong ties to their sponsoring departments. As a result, the majority of Senior Civil Service posts are still in London and the proportion has fallen only slightly since 2004.

5.3 This concentration is affected by several factors that discourage further decentralisation of government activity – career progression, personal preference, precedent and the business disruption inherent in major relocations. (See Chart 5.A.)

Chart 5.A: Factors drawing Senior Officials into central London



5.4 There has been progress. London is no longer seen as the automatic choice for new activity and requests to stay in London are now subject to robust challenge. However, challenging the “London Magnet” will not, by itself, address the deep seated systemic hold that London continues to exert on government activity.

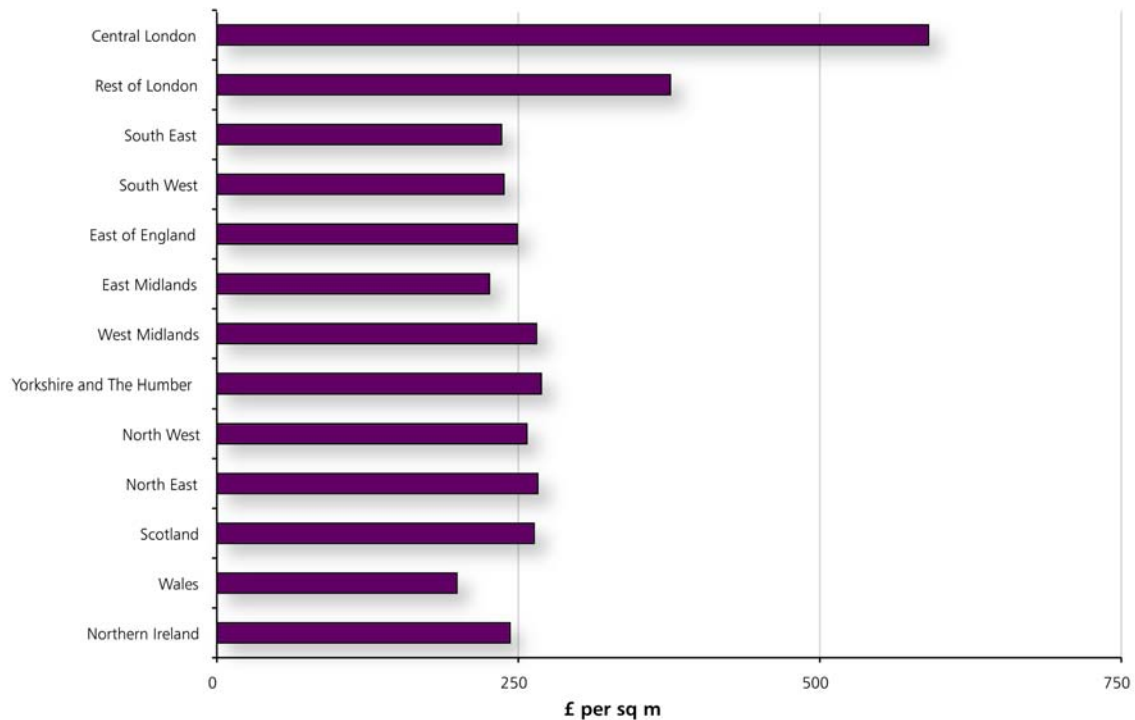
5.5 I believe that a more progressive set of relocation policies is required. A future relocation programme should actively challenge and drive down the government presence in London, particularly the expensive central London estate. This is not the case at present.

5.6 This concentration of government activity is mirrored by the size and cost of government offices in London. Nationally, the government office estate (excluding devolved administrations) totals about 7.7 million sq m. 1.7 million sq m, (22 per cent) is in London. More crucially, the majority of this office space, about 1.1 million sq m (14 per cent) of the national total, is located in central London within the five postcode areas around Whitehall (WC1, WC2, W1, SW1, SE1).¹

5.7 Both government and commercial benchmarks show this to be expensive accommodation – approximately twice the cost of government office space elsewhere in the country. (See Chart 5.B.) Consequently, 25 per cent of government’s total expenditure on the national office network is spent within a mile or two of Whitehall.

¹ OGC, e-PIMS

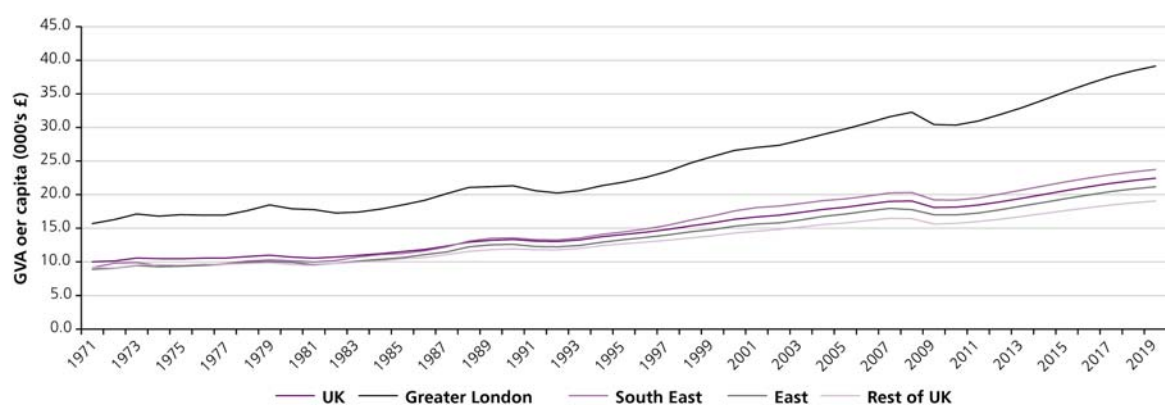
Chart 5.B: Average Regional Cost per sq metre



Source: OGC Benchmarking 2008/2009

5.8 The concentration of civil service jobs in central London places a significant additional overhead on government budgets and helps to fuel the economic development of London. The capital is already one of the wealthiest regions in Europe and I believe that government can and should do more to rebalance its own activities to better support the regional economies. Imbalances in regional economic performance exert a real cost on the UK economy, particularly as some economic forecasts suggest that the disparity between London and the rest of the country will continue to grow. (See Chart 5.C.)

Chart 5.C: Comparison of the change in gross value added (GVA) per capita across the UK



Source: Oxford Economics, Autumn 2009

5.9 There is a significant amount of government activity for which the long-term case for remaining in London should be vigorously challenged. However, the mechanisms currently in place, such as property controls, while valuable at a tactical level will not provide the necessary systemic and strategic challenge to drive any future relocation programme.

The South East

5.10 Under the current relocation programme the South East is treated in exactly the same way as London. However, the profile of government activity in the South East is markedly different from London in two key respects:

- the majority of activity provides front line services to the citizen (Jobcentre Plus, HM Courts Service) or specialist Departmental support, such as Ministry of Defence civilian jobs that provide operational support on military establishments; and
- the cost of locating government activity in the South East is similar to the rest of the UK outside of London. Both government and commercial benchmarks show property costs in the South East to be little different from the rest of the country. Likewise, data on civil service pay shows little regional variation outside London.²

5.11 As a consequence, the financial case for relocating existing activity from the South East is likely to be weak unless it is an enabler of a wider business change which results in significant efficiency savings.

5.12 Additionally, the South East has areas that are equally deserving of regeneration. The English Indices of Deprivation 2007 reported that the South East is generally less deprived than any other region. However, there are some pockets of deprivation.³ These pockets are found principally in the larger urban areas, such as Southampton and Portsmouth but also in towns, such as Margate and Hastings.

5.13 Indeed, 95 neighbourhoods (2 per cent)⁴ in the South East are in the bottom 10 per cent of the Index of Multiple Deprivation 2007 and 318 (6 per cent) are in the bottom 20 per cent. At a local authority level, the Index shows that two local authorities in the South East, Thanet and Hastings, are in the bottom 20 per cent of local authorities.⁵

5.14 The latest benefit data available from Department of Work and Pensions (August 2009) supports the evidence from the English Indices of Deprivation.⁶ Although generally less deprived, there are pockets of very high worklessness in the South East.⁷ The local authorities of Thanet and Hastings are both among the 40 local authorities with the highest rates of worklessness in England.

5.15 The current relocation programme moves activity out of the South East and blocks, except in specific cases, activity being moved into the region. This should change. However, a complete relaxation of the current policy could have perverse affects and draw activity into areas that have little or no economic need. Therefore, any changes will need to be framed accordingly, with moves only being allowed into a select number of predetermined regeneration or growth areas.

The wider government context

5.16 Since Sir Michael Lyons reported in 2004 there have been significant steps taken to create a more joined up government and to break down barriers within the Civil Service. Initiatives have been put in place to ensure that the citizen receives improved, more efficient services and staff benefit from a better, more flexible working environment. It is not my intention to explore these

² *Civil Service Statistics 2009*, ONS, March 2009

³ *The English Indices of Deprivation 2007*, Communities and Local Government, March 2008

⁴ Lower Super Output Areas (LSOAs)

⁵ *The English Indices of Deprivation 2007*, Communities and Local Government, March 2008

⁶ ONS data for the period July - September 2009

⁷ Worklessness is defined as the proportion of the working age population receiving out of work benefits from DWP

in any great depth, but they have a part to play in ensuring that any new relocation programme delivers as many benefits as possible.

5.17 Civil Service in the English Regions (CSER) is designed to create a positive culture, identity and brand for the Civil Service in the English regions. The CSER programme aims to use its strong regional presence, scale and diversity, to benefit all civil servants and, through them, the public. Two aspects of this programme are closely aligned with relocation:

- CSER is paving the way at regional level by investing in a wide range of staff improvements that make working in the regions an attractive option. The aim is to allow staff to develop their careers within a 'regional family' of civil servants and to bring regional career opportunities more on a par with London and the South East; and
- CSER is looking at the current geographical disposition of government activity across the regions and developing estates strategies that drive a process of consolidating civil service activity into better quality, more efficient buildings that can be shared by various government organisations. This links into Total Place – a new initiative that looks at how a 'whole area' approach to public services can lead to better services at less cost. It seeks to identify and avoid overlap and duplication between organisations – delivering a step change in both service improvement and efficiency at the local level.

5.18 High Performing Property (HPP) was launched in November 2006. It sets out the framework and direction for improving strategic property asset management in central government to produce:

- a rationalised 'fit-for-purpose' government estate;
- Property Asset Management (PAM) positioned as a strategic arm of business delivery;
- hard edged performance data driving continuous improvement;
- improved stewardship and accountability; and
- 20 per cent annual efficiency savings driven out of the estate.

5.19 A key element of HPP has been the requirement of departments to set up Property Asset Management Boards to direct their whole estate, including Agencies and NDPBs. This is now subject to continuous performance benchmarking with an annual published report to drive improvement.⁸

5.20 I am pleased to see the emergence of CSER and HPP. Both initiatives encourage a more corporate approach to government activity, the first at regional level and the second at departmental. Both are a positive step forward and will have a significant role in helping departments to plan future relocation activity. CSER strengthens the regions as career anchors, while HPP enables departments to take a much more strategic view of location choices across their whole departmental families.

5.21 However, by themselves CSER and HPP will not drive the step change required. Government needs to develop an overarching estates strategy that compels departments to make location decisions that deliver benefits to the Exchequer as a whole rather than just themselves. This will only be possible if the Government's estate strategy encourages cross-departmental cooperation.

⁸ *The State of the Estate – A report on the efficiency and sustainability of the Government Estate, OGC*

Box 5.A: Mayfield Case Study

Following the property review undertaken by Lord Carter of Coles as part of the Operational Efficiency Programme, plans were developed for a new type of civil service campus facility at Mayfield in Central Manchester. The Mayfield site was chosen as it gives ready access to Manchester's offices and amenities, including Piccadilly Station, the City's principal transport interchange, and is already under government control.

The business case highlights several benefits from establishing a cross-departmental facility of approximately 5,000 civil servants at Mayfield, including:

- efficiency gains resulting from the co-location of departments, the sharing of functions and facilities and lower building maintenance costs. An estimated investment of £250 - £300 million would generate net benefits (discounted over 30 years) of £700 million;
- improved career opportunities for staff across the campus, resulting in lower recruitment costs and increased knowledge sharing;
- creating one of the most sustainable office complexes in the UK, through cutting edge design that will deliver lower energy costs;
- enabling new ways of working and collaboration;
- helping the regeneration of the Eastern Gateway area of Manchester, an area of high deprivation adjoining the City Centre; and
- assuming that per cent of campus jobs are relocated from London and the South East, Mayfield could create up to 3,500 additional jobs for the Manchester city region and the North West.

A tenant engagement strategy is now being rolled out in conjunction with the Civil Service in the North West programme. This recognises that departments will make individual decisions about the case for relocating to Mayfield. As no single department is likely to require all the space, it is important to look at the campus as a strategic asset for the whole civil service. However, if the campus is to be ready for occupation in 2014-2015 there is an urgent need to identify a cross-government approach both at regional and departmental levels to ensure the scheme will proceed.

My recommendations should help realise the Mayfield project as they will improve the economics of relocation for departments, via the provision of support funding, and strengthen regional influence over departments' location decisions.

5.22 Currently, there is no mechanism that compels departments to cooperate with each other to develop civil service sites that could deliver economy of scale savings. Mayfield in Manchester is an example of a scheme, which could deliver significant Exchequer benefit, but only if it is treated as a cross-government, rather than a departmental asset.

A new approach

5.23 Government needs to develop a more strategic relocation policy. The future programme should be led from the centre with clear and transparent objectives in place from the outset. It should:

- decide the shape and size of the government activity in London;

- take a more directive view as to where relocated activity should go, particularly within each departmental family and within each region and other parts of the UK; and
- provide greater transparency of future relocations so regions and other parts of the UK can take a longer-term view as to which types of activity they wish to bid for to complement their existing capabilities.

5.24 Getting the geographic location of government right will require a more radical approach than the one that is currently in place. Any future strategy must integrate the wider ambition of *smarter government* into a long-term plan based on delivering a clear – and shared – vision. The shape of the transformation is fundamentally important and will not be realised if departments continue to be left to pursue their own separate location plans without reference to each other and wider Exchequer benefits.

5.25 A more transparent process is crucial to help improve how regions and other parts of the UK bid for decentralised civil service activity. They require more information than is currently available to them to be able to tailor propositions to specific organisations' needs rather than wasting money on generic marketing campaigns, as is currently often the case.

6

A vision for location

Whitehall should develop into a streamlined and tightly knit centre, comprising Ministers and those activities that support them. The Whitehall core should be concentrated in a small number of long-term, fit for purpose buildings with sharing between departments the norm rather than the exception.

Any remaining activities with a specific business need to remain in London (but not Whitehall) should be located in areas where operating costs are much lower and where they can contribute to wider regeneration within or near the London area.

All other jobs should be moved out of London and the South East to scale efficient, competitive regional clusters – not necessarily to a single campus or city. Each region and other parts of the UK should develop their own models that suit their particular physical and economic geography.

Clusters must contain much more than the transactional and support activity of a Department if they are to become self-sustaining. Power and career opportunities will only truly move out of London with parts of the core policy departments. Without relocating core policy staff relocation will not realise the full economic benefits that are potentially available.

Agencies and other public bodies providing national services should be headquartered alongside other government activity outside London and the South East where there are the greatest synergies.

Face-to-face activities should be located where they best serve the need of the customer and optimise wider public estate through initiatives such as Total Place.

Strategic vision

6.1 Relocation is not an end in itself. It is part of a strategic vision of how government should work in the future. It can and should be used as a catalyst for wider change. It is an opportunity to take a fundamental look at the way government business could be transformed to deliver substantial improvements in efficiency and effectiveness.

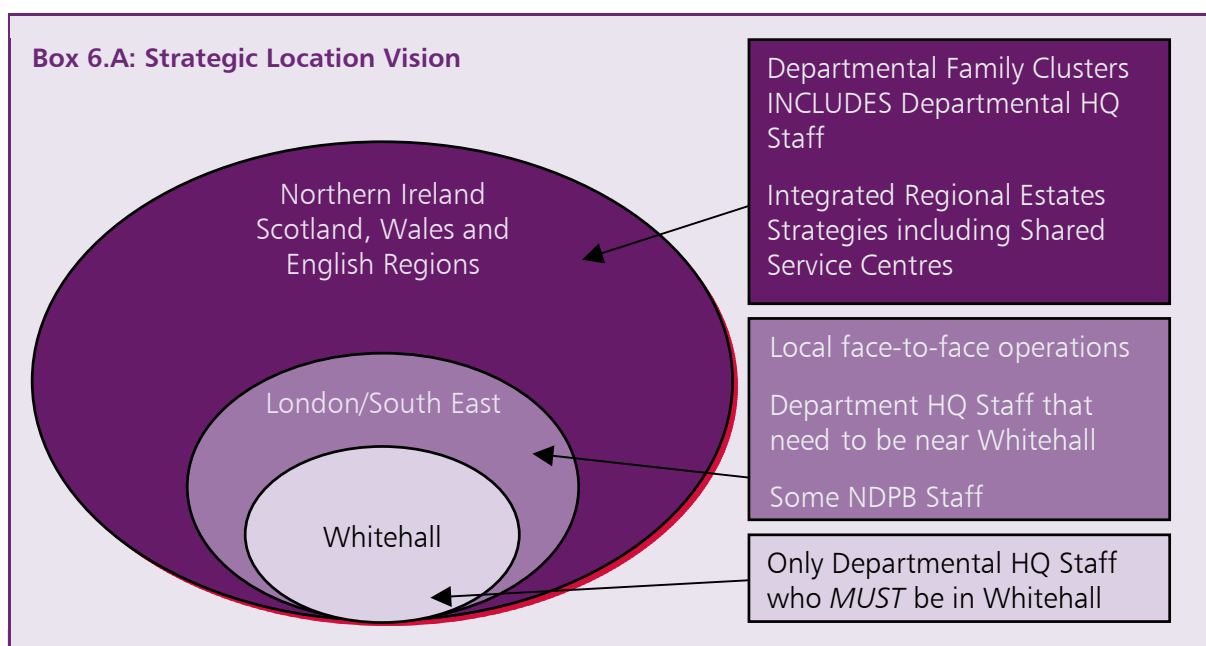
6.2 In preparing this review I have been clear of the need to adopt modern working practices and to establish a long-term strategic vision of the appropriate location of government activity.

6.3 In terms of location there are five important beliefs that have underpinned my vision:

- Whitehall is a great national asset – the network effects are to be encouraged and those activities that benefit from and contribute to these effects should remain;
- those activities that are not critical to the network effect should be moved out of London, releasing some of the most expensive office accommodation in the country;

- government should promote modern, fit-for-purpose civil service clusters in the regions and other parts of the UK, contributing to the vision of a world-class *Digital Britain* with modern communications and flexible ways of working;
- Civil service activity needs to be managed so that it contributes to the economic vibrancy of the whole of the UK; and
- Relocation can be an important enabler of regeneration – not simply by moving some jobs to an area of high unemployment, but by creating distinct regional clusters of like government activity which are able to attract associated private sector investment. This facilitates the development of centres of excellence and helps build clusters of international competitiveness.

6.4 There are three main components to my longer-term strategic vision, as laid out in the diagram in Box 6.A:



6.5 First, the Civil Service should have at its core a streamlined and tightly knit Whitehall centre, comprising of Ministers and those activities that really need to support them. Currently, there are 30,000 Departmental civil servants situated in central London.¹ This core should be significantly reduced and concentrated in a small number of long-term, fit for purpose buildings. The sharing of space between Departments should become the norm rather than the exception.

6.6 Secondly, there is activity that needs to be close to central London but does not need to occupy expensive space in Whitehall to carry out its functions. Much of this activity consists of front line service delivery where proximity to the customer must be the primary consideration. However, it also includes some Departmental activities that support the smaller Whitehall core. These activities should be located in parts of London and the South East where operating costs are much lower and where a positive contribution can be made to the regeneration of the area. Departments should look to co-locate like activity across organisational boundaries to deliver efficiency and to promote the sharing of scarce resources.

6.7 Finally, in the rest of the UK, there should be greater clustering of similar activity. This does not need to be in a single campus or a city as a very large concentration of government activity in one place could reduce some of the wider benefits of relocation by displacing private sector

¹ Estimate based on ONS data

activity. Creating a linked cluster across a region could help to avoid problems associated with displacement and create concentrations of activity that enhance competitive advantage and encourage private sector investment. Additionally, this approach should result in the organisations charged with the delivery of government policy, such as agencies or NDPBs, locating themselves with their key policy makers in the regions.

6.8 These clusters must contain much more than transactional and support functions if they are to become self-sustaining and contribute fully to the economic vitality of their surroundings. Power and career opportunities will only truly move out of London with parts of the core policy departments. Some, such as the Department for International Development and the Department of Health, have already moved significant parts of their operations out of London and the South East. I believe all departments must follow their example.

6.9 I am not persuaded that Agencies and NDPBs providing national services need to be headquartered in London and the South East. They should be located alongside other government activity outside London and the South East where there are the greatest synergies (either functional or departmental). If necessary some of these organisations could have use of meeting space within their sponsoring departments' London office.

Box 6.B: Department for International Development Case Study

The Department for International Development (DfID) operates from joint HQ locations in the UK: a central London leased building and a second freehold office in East Kilbride. When the East Kilbride office was opened in the early 1980s it was primarily a “back-office” centre, responsible for accounting and procurement. A conscious decision was taken to expand the scope of work carried out at East Kilbride to incorporate a range of policy and programme management work, including a number of Senior Civil Servants, senior advisory and management posts. Efficiency was a driver (costs are approximately three times higher in London), but the move was also to provide a viable career path for all staff, including those returning home from overseas postings.

Today, East Kilbride retains its role as a corporate service hub, but is also now the base for DfID's work with the United Nations, Commonwealth and Civil Society organisations and for its aid effectiveness and evaluation work which ensures Britain's international development efforts deliver value for money.

Maintaining an inclusive and productive relationship between staff at both locations demands active leadership and good management. DfID's Management Board members and Directors regularly visit and work from the East Kilbride site. Seminars and senior level meetings held in London are accessible through the DfID global videoconferencing network. This reduces the need for staff travel. DfID have also invested in electronic document and records management and collaborative and remote working environments.

With careful management and policies, DfID has shown that it is possible to manage a successful and efficient dual HQ site.

Changing working practices

6.10 The way in which we work is going to change dramatically over the next ten years. The rapid development of communication technology means that work is becoming what you do,

not a place you go to. The next generation that enters the workforce will understand this better and, in the words of Sir Gus O'Donnell, "they will be ready and able to work anywhere."²

6.11 Consequently, the challenge in the future will be less about providing conventional offices and more about workplaces that are more intelligently distributed and used far more intensively, as is so clearly argued in *Working Beyond Walls*. Therefore, relocation must trigger a much wider transformation in the way that individuals work. As plans develop for regional solutions, they need to aim at future working realities and the efficiencies they will bring.

6.12 The number and diversity of individual organisations still in London, particularly those with corporate functions, shows that there is significant scope for a well-managed relocation programme to deliver operational transformation and efficiency savings.

6.13 Good work is already being done to ensure that cross-government savings are being delivered. Shared services have provided a further layer of efficiency by rationalising similar functions across departments or their departmental families. The Shared Service agenda should be integral to future relocations.

6.14 The case for moving transactional and back office functions out of London has been accepted for many years and should continue. However, government has been slower to recognise that fundamental transformation of the way the Civil Service works would occur by also relocating central policy functions. Moving senior staff and those with policy responsibilities to a small number of clusters would be a very positive move to help decentralise the state and promote the role of the regions and the rest of the UK.

6.15 The problems facing government require joined up solutions. The current system of government relies on highly compartmentalised structures. Regional clusters offer the opportunity to break these barriers by locating Whitehall expertise alongside that of local delivery agencies. Furthermore, policy makers will develop a broader understanding of political, economic and social factors on which to base their recommendations. This joining up of the centre and the localities it serves will help to develop and deliver more effective solutions.

6.16 If government is to prepare itself for the challenges ahead, every relocation must involve a major re-evaluation of the way the organisation operates. No government organisation works in isolation. The more flexible and responsive operating model offered by clusters allows staff to work alongside key delivery partners, sharing expertise and resources across organisational boundaries. I believe it is from these changes that many of the benefits of clustering will emerge.

6.17 The counter argument is always that policy functions need to be near Ministers. However, by using modern communications and technology civil servants will have the ability to participate in policy decisions in Whitehall from anywhere in the country. Placing central government functions closer to the citizen will also expose civil servants to a much wider set of influences and opportunities.

6.18 There is also a critical need to change Ministerial behaviour, if this vision is to become a reality. If relocation is to go beyond the transactional and support functions, it will require major changes in how departments work. In particular Ministers should be more insistent on limiting travel to meetings that could be held electronically. Video conferencing and other modern technology should become part of daily business practice rather than the exception.

² *Working Beyond Walls: The government workplace as an agent of change*, July 2009

6.19 Relocation must not be treated as an end in itself. I believe moving activity without transforming it, without using it to trigger further change in the way government operates, would be a lost opportunity and risks relocation becoming just a set of expensive office moves.

7

Stronger Centralised Mechanisms

The future relocation programme should be stringently controlled from the centre, both across the Civil Service as a whole and within individual departments. A more strategically managed programme will allow the cost benefits and regeneration potential of relocation to be fully realised.

The central London estate should be treated as a single campus. It should be managed strategically to deliver cross-departmental efficiency. Furthermore, the size of the central London estate should be progressively capped at a lower level. Departments should be made to justify, on strict business grounds, the need to retain such expensive space. Departments need to identify all activity that could be moved out over time.

All Departmental relocation strategies agreed by this process should be made public to ensure that there is a transparent relocation pipeline. This will help regions and other parts of the UK improve how they bid for decentralised civil service activity.

Regions and other parts of the UK need to make much better cases for relocation: not just lobbying for jobs, but also how they will create campuses and scale efficient clusters that build regional competitiveness. Therefore, a regular forum should be set up within each region to structure relocation propositions that deliver better value for money and are integrated with the emerging regional estates plans.

A Cabinet Committee and the Chief Secretary to the Treasury should oversee the process. The Committee and Minister should be able to hold departments to account for their location choices. Relocations should form an integral part of the Spending Review process.

Location principles

7.1 In Box 7.A, I have set out the seven core principles that I believe should guide government location policy going forward. I recommend that these are endorsed at Ministerial level, and then used to drive the strategic direction of the estate. [\[Recommendation 13\]](#)

Box 7.A: Location Principles

- Departments to retain only the minimum level of activity in central London consistent with supporting Ministers and associated headquarter functions based on core buildings held long term;
- activity that does not fit in central London and which still needs to be close to Whitehall to be housed outside prime rental areas in locations that contribute to regeneration or growth;
- departments to retain only the minimum level of activity in the rest of London and the South East consistent with operational requirements;
- agencies and NDPBs to retain only the minimum level of activity in London and the South East consistent with operational requirements for customer facing services;
- no Agency or NDPB providing a national service to have a central London headquarters building and operate instead with a small area in their sponsoring Department if necessary;
- departments to have at least one significant cluster outside London and the South East that incorporates core Departmental staff as well as their Agencies and NDPBs. Where possible, clusters should be cross-Departmental; and
- departments to be responsible for the location choices of their Agencies and NDPBs and work towards establishing regional clusters of like activity.

7.2 Delivery of a transformed estate through relocation will require a step change in government behaviour made up of four key elements:

- a new strategic and corporate approach that will make this programme self-sustaining and ongoing;
- making the case for relocation more compelling by improving the cost benefits;
- making the process more transparent; and
- improving Ministerial leadership to ensure this programme is delivered and that modern working practices and technology are widely used within their Departments.

Strategic implementation in London

7.3 The starting point for the future relocation programme must be the development of a regional strategy for London that looks at both the size of the estate available and the demand for space. This should:

- view the central London estate as a single campus that needs to be managed strategically to deliver cross-Departmental efficiency;
- require Departments to make a robust evaluation of their demand for London space on the basis of the agreed location principles; and
- incorporate new property ownership models that could help to determine the optimum disposal strategy and exit timescales of existing premises.

7.4 Reducing the departmental demand for central London space will require a consistent cross-Departmental definition of government activity to help determine:

- those functions which support Ministers and core policy work and therefore have a long-term need to remain in central London;
- those functions that have a long-term need to be in London to be close to and support such Whitehall activity;
- those functions that have a long-term need to be in London to provide face-to-face front line services; and
- those functions that have no long-term need to remain in London and should be relocated.

7.5 In the time available to this review, it has not been possible to produce a precise methodology that would define each category in appropriate detail. This process must be carried out through consultation with departments. It is important that the methodology developed is kept simple, high level and proportionate.

7.6 Using this methodology, departments must then justify their long-term demand for London space on the basis of their functional analysis and business need. Departments should provide this information both for themselves and their departmental family in London.

7.7 In parallel, a strategic estates plan should be completed for London, setting out a number of costed scenarios for significant size reductions over a five year period, concentrating on the expensive central London postcodes. The scenarios developed should be stretching, reflecting the need to reduce the cost burden of the central London estate by as much as possible.

7.8 The outcome of this process will deliver:

- a strategic plan for reductions in the London estate which will be subject to a fixed and reducing cap as properties are vacated and released;
- outline Departmental strategies for long-term activity that does not fit within central London and will be relocated; and
- an aggregate plan that shows, by department, how the future programme will deliver the relocation of 15,000 posts within five years of implementation.

[Recommendation 6]

7.9 To help regions and other parts of the UK improve how they bid for decentralised civil service activity, I recommend that the departmental relocation strategies agreed by this process should be made public so that there is a transparent and open process to drive future relocation decisions. [Recommendation 7]

Strategic implementation in the Regions, Scotland, Wales and Northern Ireland

7.10 Greater transparency should help regions and other parts of the UK improve how they bid for decentralised civil service activity. They need to manage their resources more effectively to develop genuine economics and skills based inward investment propositions rather than focusing on general marketing campaigns.

7.11 Regional estates strategies are already in preparation under the CSER initiative to look at options for more effective and scale efficient government property. Visibility of potential relocations will enable regions to rationalise their decision-making so that they (a) *do not* bid for

civil service activity that does not fit their strategic plan, and (b) *do* look for opportunities to exploit synergies with the wider public sector in their regions.

7.12 OGC should establish a regular forum with each region to structure relocation propositions that deliver better value for money. These should be integrated with the successful CSER programme and be accountable to regional Ministers. Regions need to make much better cases for relocation: not just lobbying for jobs, but also how they will create scale efficient clusters that build regional competitiveness.

7.13 Scotland, Wales and Northern Ireland are equally important as potential recipients of further central government activity. Under the leadership of the respective Secretaries of State, the UK government, working with the devolved administrations as appropriate, should seek to establish similar arrangements as I have outlined for the English regions to suit their Home Nation. [\[Recommendation 8\]](#)

Timescale

7.14 If the process was run in conjunction with the next Spending Review, in which the overall financial framework for departments is set, this would enable location choices to be fully integrated with the wider core issues of headcount and overall funding. The next Spending Review provides an opportunity to begin integrating departmental location decisions within wider budget discussions.

7.15 Integration with the Spending Review process has two main benefits. Firstly, if Spending Review timetables allow, they offer the opportunity to agree relocation numbers as part of the formal settlement with each department. Secondly, the Spending Review process provides a natural cycle in which the location of government can be considered, thereby embedding it as part of government's core business planning process as an ongoing and self sustaining mechanism.

Management

7.16 The programme I have outlined is ambitious and will require strong leadership to deliver, particularly in driving through the reduction in the central London estate and exposing the long-term relocation potential of the activity that does not need to be there. I believe that this can only be provided by a Cabinet Committee and the Chief Secretary to the Treasury with the remit to hold Departments to account for their location choices. [\[Recommendation 14\]](#)

7.17 Government should broaden the role of regional Ministers, strengthening those structures that could support them in an enhanced role. regional Ministers should provide oversight for estate strategies for the future location of government activity in their region and the development of specific relocation propositions. This will set an important example of decentralising power from Whitehall and ensure other parts of the UK adopt a coordinated response to relocation.

7.18 I recommend that the central London estate is treated as a single campus that is managed strategically to deliver cross-departmental efficiency, ensuring that offices are exited in a controlled fashion that delivers best overall return for the taxpayer. Consideration should be given to how government property vehicles can contribute to this process. [\[Recommendation 5\]](#). This implies stronger central oversight and control of the property decisions, but not centralisation of operational estate management or budgetary accountability.

7.19 The Shareholder Executive Property Unit was created to ensure the development of a co-ordinated central strategy across the Government estate. *Putting the Frontline First: smarter government* commissioned it to review different public sector estate management and ownership options. I am encouraged that these options, including creating property vehicles,

could support this relocation agenda and are consistent with my recommendations. The Property Unit should work closely with OGC and departments, in developing strategic estate plans for London, including identifying elements of the London estate that could be used more efficiently by government as a whole and redevelopment opportunities that would benefit the public finances.

7.20 This more corporate approach must cover the whole departmental family. I believe that the governance arrangements of NDPBs need to be strengthened to ensure that there is a correct balance between operational independence and the obligation to achieve the best overall outcome for the Exchequer.

7.21 I welcome the Arms Length Body review announced in *smarter government*.¹ In particular, I believe that the Departments should take control of all location decisions for their departmental family. **[Recommendation 9]**

7.22 The presumption that all newly set up government organisations should be located outside London and the South East should be strengthened and enforced. There should be a clear definition of what constitutes a ‘new’ body that includes organisations being merged. A location strategy should be agreed as part of the process for sanctioning the establishment of all new bodies. **[Recommendation 10]**

7.23 The existing property controls for London and the South East need to be retained as one of the fundamental elements of this strategic management function. They should also be extended nationally in order to underpin the more strategic approach to the regional estate that I am proposing. This will clearly need to be proportionate and concentrate on major properties only. Exercise of property controls within the regions should become a responsibility of the appropriate Regional Minister. **[Recommendation 12]**

7.24 Some departments have suggested going further and unwinding the current devolved responsibility for the operational management of property. I believe such a fundamental shift across the board is outside the remit of this review and I have not considered it further. There may well be a place for more imaginative ownership models, particularly around property that is not required long term, to unlock greater disposal value to fund the relocation programme.

Diversity

7.25 The Civil Service in London has a much wider diversity profile than the Civil Service nationally. Therefore, there is a risk that relocating jobs out of London may adversely affect the overall diversity of the Civil Service. The considerable progress made by the Civil Service in attracting as wide a range of staff as possible must not be put at risk by a future relocation programme. This point has been made to me very strongly in my consultations.

7.26 Since Sir Michael Lyons reported in 2004, the current relocations programme has moved a significant number of jobs out of London and the South East. The annual statistics continue to show a significant and improving trend in civil service diversity both nationally and in most regions. Likewise the long term rate of change in the reported ethnic composition of the Civil Service has remained unchanged during the last five years.² However reassuring, it is still difficult to be sure of the extent to which these statistics can be taken as an indication of the impact of the current or indeed any future relocation programme given the many other factors involved.

7.27 It is critical to continue to improve the diversity of the Civil Service. This must be a key consideration at the organisational level where relocations are planned and at the strategic level

¹ *Putting the Front Line First: smarter government*, HM Government, December 2009.

² *Civil Service Statistics 1999-2009* (published by Cabinet Office to 2005 and Office for National Statistics (ONS) to 2009)

when considering the optimum geographic disposition of civil service activity within each region. This must include robust and thorough Equality Impact Assessments at all appropriate stages of the process.

8

Improving relocation costs and benefits

The economic case for relocation needs to be made more compelling so that departments embrace it as a catalyst for wider business transformation.

Relocation incentives can be improved by targeting three main areas:

- the direct cost benefits to the relocating organisation, reducing upfront investment costs and ensuring relocation acts as a trigger for process re-engineering and wider business transformation;
- departure cost benefits, reducing the cost of exiting property and attempting to secure redevelopment value, where possible; and
- destination cost benefits via building regional campuses that reduce operating costs and by creating clusters that encourage private sector investment and help generate regional competitive advantage.

Upfront relocation costs need to be more affordable and I am hopeful that HM Treasury will establish some relocation investment funding as part of the forthcoming Spending Review process. This will help departments with their long-term planning and encourage more robust relocation business cases.

The regional economic development case for relocation made by Sir Michael Lyons remains persuasive, although regions need to be much more proactive in developing economic propositions, rather than focusing on general inward investment marketing.

It is recognised that there can be both financial and regeneration benefits from moving staff from central London to other parts of London or the South East. I am supportive of this, but such examples must be subject to strict criteria and moves within London do not count towards the 15,000 relocation target.

Direct, departure and destination cost benefits

8.1 Successful relocations should deliver benefits both to the relocating organisation, in terms of efficiency, and to the destination economy, in terms of employment growth and regeneration.

8.2 Under the current programme many relocations delivered financial savings, particularly those that took advantage of the existing government presence within the regions. By moving into existing government buildings and taking on existing civil servants the high costs associated with “new” moves were lowered dramatically.

8.3 Around 20 per cent of moves involved substantial parts of an organisation relocating. Some, but not all, of these produced disappointing economic results. With staff costs up to six times larger than property costs, savings in office occupation were outweighed by retention, redundancy, relocation, recruitment and training costs. In such instances, payback periods were typically over ten years and could be longer if significant office refurbishment was also required.

8.4 However, major relocations can combine financial savings with successful business transformation and culture change. Standards for England relocated to Manchester in two phases in 2006 and 2007, achieving a four year financial payback and transforming the organisation from being perceived as a London-based body, regulating from the capital, to a regionally-based one that is much more attuned to the local authority environment in which it operates.

8.5 Whilst consulting with departments during the preparation of this report, I have been struck by how many have asked whether my review is about efficiency or relocation. The clear implication is that these are mutually exclusive and you cannot relocate jobs and be efficient at the same time. While I understand this view from the perspective of managing departmental budgets, I believe it is wrong when considering the wider government perspective. Sir Michael Lyons concluded that the *"dispersal of government jobs is likely to have positive knock on effects for regional economies"*¹ and my meetings with regional representatives, economists and inward investment specialists have confirmed that opinion, although it is true that little new empirical evidence has been produced since Sir Michael Lyons reported in 2004.

8.6 I have focused my review on attempting to improve the underlying economics of relocation so that departments have a positive incentive to move staff, rather than be obliged to deliver a relocation target that imposes a financial burden.

8.7 Improving the cost benefits of relocation requires consideration of three main areas:

- the direct cost benefits to the relocating organisation, with particular reference to high upfront investment costs;
- departure cost benefits, both reducing the cost of leaving London and attempting to create some value from the property being exited; and
- destination cost benefits, examining options for reducing the costs of operating in a new location and building regional competitive advantage.

Direct relocation cost benefits

8.8 High upfront investment costs are a significant barrier to encouraging departments to relocate more jobs from London. While relocation does deliver lower ongoing property and staff costs, these savings take time to materialise and the high upfront investment costs, usually staff related, can result in lengthy pay back periods that make relocation unattractive.

8.9 While smaller relocations or movement of activity have been made on significantly better terms, many of these easier 'wins' have already been delivered by the current programme and will be harder to replicate. The number of relocations involving complete organisational units is likely to increase substantially in the future. It is these types of relocations that have higher upfront costs.

8.10 These investment costs must be reduced if the economic case for relocation is to be made more compelling [Recommendation 1]. This can be achieved by improving the management of relocations, with particular emphasis on the following three proposals:

- managing the redundancy liability;
- better alignment of civil service and market pay; and
- using relocation as a catalyst for change to introduce business transformation.

¹ *Well Placed to Deliver? Shaping the Pattern of Government Service*, Independent Review of Public Sector Relocation, Sir Michael Lyons, March 2004.

8.11 Managing the redundancy liability: I commend the changes to the Civil Service Compensation Scheme being introduced from 1 April 2010. These will go some way to lowering the high redundancy costs that can be a barrier to innovation, restructuring and technological change. New provisions will also make it harder for an individual to take a severance payment and then rejoin another organisation covered by the scheme. However, more can be done. For example:

- 1 Introducing more robust redeployment provisions. Although many thousands of surplus civil servants have been redeployed across departmental boundaries:
 - it should be easier for NDPB staff not wishing to relocate to be redeployed by their parent departments without receiving redundancy or severance payments. This requires existing provisions to be more effectively managed. Finding suitable roles in a contracting Civil Service is undoubtedly difficult, but a more proactive management approach by parent departments is required; and
 - relocating organisations must comply with existing requirements to advertise vacancies in their new location on the Civil Service Vacancy System (CS Vacs) prior to starting external recruitment. CS Vacs affords priority access to all staff who are surplus and the recruitment of suitable staff by this means will minimise recourse to compulsory redundancy. For example, the Office of the Public Guardian (OPG) filled 70 per cent of its posts for its move to Nottingham from surplus Ministry of Justice civil servants in the city, saving the Exchequer considerable redundancy and recruitment costs.²
- 2 Relocations should be planned over a longer time horizon of four to five years. Natural staff attrition will then help reduce the overall redundancy liability as recruits who join after the location decision is announced should either receive a contract accepting the relocation or a term contract for employment until the move date. The options available to new staff must be clearly explained on recruitment and the choice documented.
- 3 The creation and exercise of mobility clauses is also a key issue. It is not reasonable to force all staff to accept contracts that might require them to work anywhere in the UK. However, more can be done to improve mobility and hence reduce redundancy payments. In particular:
 - Senior Civil Service contracts do contain mobility clauses that incorporate geography and the presumption should be that these should be enforced, although the actual decision must depend on the specific circumstances;
 - there are no standard mobility provisions in NDPB contracts as each organisation is a separate employer. However, there is merit in ensuring that the existing procedures for setting up a new NDPB be extended to include common mobility clauses which insist that senior staff can be expected to work anywhere in the country; and
 - the movement of staff between NDPBs and Departments is further restricted by only around 150 NDPBs choosing to be accredited with the Civil Service Commissioners. Accreditation makes it considerably easier to manage staff surpluses and redundancies in the case of relocation or business restructuring.

² For further details of the OPG relocation see Chapter 10.

I believe consideration should be given to identifying ways in which as many NDPBs as possible satisfy the criteria for accreditation.

8.12 The anecdotal evidence is that relocating organisations can benefit from salary savings at the more junior grades, but the benefits can be delayed as there may be a premium for buying into a local employment market. Salary savings of 5 per cent – 10 per cent of the pay bill might be realisable in the long term if we can institute a closer link between civil service and market pay. The introduction of more local civil service pay was a core recommendation of Sir Michael Lyons and much still needs to be done in this area to improve the salary benefits from relocation and hence the underlying economics [Recommendation 2]. Introducing a strong link between civil service and market pay would greatly increase the potential for savings. Similarly, planning relocations over longer time periods may reduce organisational concerns over their ability to recruit large numbers quickly and so reduce the temptation to offer above market, or London, salaries.

8.13 Finally, it is tempting for departments to view relocation as separate from wider restructuring. The approach that treats restructuring and location as separate issues is misguided and results in higher costs. Relocation is an important catalyst for change and should be considered as a critical way of enabling more fundamental changes, making it easier to re-engineer processes, transform business activities and introduce more flexible working environments. Relocation should be accompanied by significant operational savings, particularly if it is integrated into restructuring programmes so that more activities are undertaken in cheaper regional locations and staff numbers reduced most in the more expensive locations.

Departure cost benefits

8.14 Some organisations that relocated under the current programme were left with legacy offices in London. Inability to re-let space can result in costly dual property costs which can significantly affect relocation economics and payback.

8.15 Secondly, as organisations manage their property portfolio within their own budget constraints, some cross-government opportunities may be lost. Moves from London are not being co-ordinated, with the result that those buildings that deliver the greatest financial benefits for the Exchequer may not be prioritised for exit. Consideration should be given to how government property vehicles can help this process.

8.16 Departure cost benefits can be significantly improved by managing the London estate as a single campus with a strategic asset plan being produced that limits the overall size of the estate. Departments should be required to justify how much space they require as part of each Spending Review process. The cap on the size of the London estate should be progressively lowered at each Spending Review. Under this regime, there are two main ways in which the economics of leaving London and the South East might be improved:

- 1 integrated estate planning should make it easier to back-fill empty space, so reducing the risk of relocating organisations having to carry dual property costs; and
- 2 the Shareholder Executive has a very important role in identifying cross-government redevelopment value that might otherwise be lost, and maximising value from the disposal of surplus estate. Following meetings with the Shareholder Executive Property Unit, I am encouraged that there are opportunities for government to take a much greater role in the redevelopment of appropriate civil estate sites in central London, packaging estate together and potentially attracting significant private sector interest.

8.17 This strategic management model will also make it more likely that departments may have to share headquarters buildings rather than maintain their own offices or exit properties on long leases so that early redevelopment can take place. It is also critical that the strategic management model ensures that Departments retain clear incentives to reduce their London footprint.

Destination cost benefits

8.18 Financial savings are also possible at the relocation destination, both directly and indirectly. For example, savings can be made by:

- 1 regions working with OGC to provide fit for purpose office space that does not require expensive refurbishment as soon as it is occupied (as has been necessary in some instances). Open plan space should be provided on appropriate floor plates that adhere to OGC's wider space standards of 10-12 sq m per person, depending on whether it is a new or a refurbished building.³ Expensive refurbishments will not be necessary if regions ensure that developers provide modern, fit for purpose, general government office space;
- 2 relocations should be accompanied by more flexible working practices, increasing the scope for staff to work regularly from home, or other non-office locations or to be permanently home based; and
- 3 the technology and working practices now exist for the vision of *Digital Britain* and *Working Beyond Walls* to become everyday standard practice and relocation provides a good opportunity to introduce such changes. Better use of technology should reduce the need for costly travel back to London and improve regional career planning, networking and management coordination. With modern technology, there is no reason why the need to travel back to London should continue to be the barrier for relocating policy roles that it once was.

8.19 In addition, further benefits can accrue by locating activities in regions where the move positively contributes to its economic competitiveness by helping to create a centre of excellence. This could be delivered via the establishment of a cross-departmental public sector campus, as is envisaged with Mayfield in Manchester, or by developing a regional cluster, with, for example, defence activities being concentrated in the South West.

8.20 Creating campuses and clusters in partnership with the Civil Service and local authorities should help regions and others parts of the UK develop core skills and competitive advantage. This should attract private sector investment, facilitate regeneration and provide wider career opportunities.

8.21 Development of campuses and clusters should also accelerate the move towards basic common technology standards, such as the *gsi network*. This will make it easier to implement shared service solutions so that corporate service overheads are minimised.

Summary economics

8.22 Taking all the above efficiency proposals into account, it should be possible to halve the upfront cost of relocation. This has the effect of reducing the payback period to around five to six years if the best practice measures identified above are adopted.

³ OGC Guidance

8.23 The savings from relocation to the Exchequer will be even greater as the above payback has been calculated from the department perspective and excludes several sources of efficiency which impact the taxpayer rather than the direct relocating organisation. For example:

- the sale of any freehold property assets being vacated in London;
- any value secured from the redevelopment of London leasehold property that is exited early in partnership with the landlord; and
- the wider economic impact and regeneration benefits of relocation. Sir Michael Lyons report identified positive relocation multiplier impacts for major relocations such as The Overseas Development Administration (ODA) to East Kilbride (multiplier 1.25), the Department of Health and Social Security to Leeds (1.3) and ONS to Newport (1.5).⁴ A multiplier of 1.25 implies that one new job was created for every four that the ODA established, while for the ONS the ratio was one new job for every two. However, it should be recognised that relocation by itself is not guaranteed to deliver sustainable local economic benefits and the over-concentration of public sector activity in one location or region can potentially be very damaging by crowding out private sector investment. Hence, it is important to ensure that locations are carefully selected to ensure the impact on the receiving economy is positive.

8.24 These savings can be improved yet further if relocation is used as a catalyst for wider business transformation. This can include the introduction of business process changes, IT improvements and new flexible working procedures, such as home working and desk sharing. All the organisations I met that have relocated spoke about these transformation benefits and, despite the upfront costs, they have all managed to reduce their cost base significantly. For example, the Training and Development Agency for Schools' annual cost base in Manchester is now around £4 million lower than when it was located in central London.

Funding and affordability

8.25 A key constraint to relocation has been the lack of any central funding of the upfront relocation costs, which have had to be found from within existing budgets. This has created a powerful disincentive to investigate relocation options as other projects with lower funding requirements are prioritised, even where these may have a lower overall Net Present Value (NPV).

8.26 There is also concern that there is a disincentive for departments to invest in relocation as benefits which accrue beyond the next Spending Review may not be fully recognised in subsequent budget settlements.

8.27 I want to make the upfront affordability of relocation easier and have initiated discussions with HM Treasury on the establishment of some form of central funding support. My intention is that departments should be able to apply for relocation investment funding if certain strict criteria are met [Recommendation 3]. For example:

- the application must be accompanied by a detailed relocation business case, with full economic and financial modelling as required by the HM Treasury Green Book;
- the pay back period cannot be more than six years (two Spending Review periods);
- the number of jobs moving must exceed 200 (although a lower limit is likely to be appropriate for smaller departments);

⁴ *Well Placed to Deliver? Shaping the Pattern of Government Service*, Independent Review of Public Sector Relocation, Sir Michael Lyons, March 2004.

- the business case must demonstrate a robust approach for mitigating the redundancy liability and a clear redeployment strategy for existing staff;
- there must be a clear benefits realisation strategy so that the costs and benefits of relocation are effectively tracked and measured;
- the relocation destination must be outside London and the South East; and
- the grant would be repaid if it were subsequently found that any of the above covenants were breached.

8.28 I am pleased by HM Treasury's response to my approach regarding funding support and am hopeful that this can be set in place as part of the forthcoming Spending Review process. If a central fund were to be established, it would not need to cover all the investment costs of relocation, but instead be sufficient to ensure that relocation outside the South East became the most advantageous location option for the applicant.

8.29 Part-funding of investment costs will reward those departments that react fastest to produce relocation business cases and will help accelerate the overall programme.

Regeneration benefits

8.30 It was apparent from the consultation process that there remains some uncertainty as to whether relocation can deliver substantial regeneration benefits. Sir Michael Lyons indicated that relocation can make a significant contribution to the economic development of other parts of the UK as long as it is managed appropriately, the destination locations are not too small and the pay levels do not encourage private sector displacement. I have not had the time to commission further econometric research, but I am content with the economic basis as laid out by Sir Michael Lyons.

8.31 Every region needs to have a clear and robust economic strategy. This approach requires further investigation into how best to deliver the regional economic benefits of clustering, taking into account international experiences, such as in Atlanta (See Box 8.A). This analysis should be run in parallel to the other work and not delay implementation.

Box 8.A: Creating Clustering Benefits – Atlanta, USA

In the United States, considerable research has been undertaken by the Council on Competitiveness into the development of regional competitiveness and clusters. Its *Clusters of Innovation Initiative* established a definitive framework to evaluate cluster development at the regional level.⁵ It focused on how clusters form, why they are critical to a region's economic future, and how regional stakeholders can help its clusters thrive.

In 2002 the Initiative examined the composition and performance of the Atlanta-Columbus regional economy. It concluded that:

- clusters are defined as geographically proximate groups of interconnected companies and associated institutions in a particular field, linked by customer, supplier, or other relationships.
- the industries that constitute a cluster become mutually reinforcing. Information flows freely and innovation spreads rapidly through the relationships among customers and suppliers.
- institutions such as colleges and universities adapt to cluster needs. Rivalry in one industry spreads to other industries in the cluster through spin-offs or related diversification. The region becomes a repository of specialised expertise and technology.
- clusters innovate faster because they draw on local networks that link technology, resources, information, and talent. Strong competition at a local level also increases innovation. Clusters build the basis for specialised skills and capabilities and enable competitive advantage in world markets.
- Atlanta has already seen success with clusters in financial services and information technology. However, the region can do more to foster cross-cluster collaboration by hosting networking events designed to foster this kind of interaction.
- Atlanta relies less on its traditional economy based on low costs, privileged location and attractive climate. It is becoming a centre of innovation by strengthening regional universities, better commercialising university-based knowledge and attracting private sector research. This shift required a change in the traditional economic development mindset of many regional leaders.

Over the last decade Atlanta has created more jobs than any other major metropolitan area in America, and benefits from clusters in the transportation and logistics, business services and information technology industries.

8.32 The move of the Qualifications and Curriculum Authority (QCA)⁶ to Coventry also provides evidence that relocation can have a very positive impact on local economies.

⁵ *Atlanta-Columbus, Clusters of Innovation Initiative*, Professor Michael E. Porter, Harvard University (April 2002)

⁶ This organisation has subsequently been renamed as the Qualification and Curriculum Development Agency (QCDA)

Box 8.B: Case Study: Qualifications and Curriculum Authority

The Qualifications and Curriculum Authority (QCA) is responsible for developing the national curriculum, improving and delivering assessments, and reviewing and reforming qualifications. It employs 650 staff and relocated from London under the current relocation programme.

After an extensive review of location options, the QCA decided to move to Coventry and in August 2006 selected a new 6,000 sq m office on the Earlsdon Business Park. Approximately 15 per cent of QCA staff relocated from London, with the remainder being recruited both locally and from across the country. According to Coventry City Council the relocation:

- Brought 650 direct jobs to the city, with a further 20-30 indirect jobs estimated to have been created via the increased spend of employees and the purchasing of office goods and services;
- Raised the area's overall income (Gross Value Added) by about £20 million;
- Moved the Earlsdon Business Park proposals off the drawing board, initiating the construction of a major new city centre business park;
- Encouraged further development activity, enabling the old adjacent City College building to be transformed into a hotel, theatre and restaurants, along with further office and housing developments;
- Improved general local economic confidence and confirmed the underlying regeneration strategy of moving away from the traditional manufacturing industries towards more knowledge based hi-tech industries and services, providing a wider choice of jobs for the graduates from the city's two universities; and
- Did not displace any existing private sector activities in the city.

Following relocation, QCA has achieved property savings of £5.7 million per annum.

8.33 It is difficult for relocating organisations to balance their own business requirements with the wider economic implications for the country. This trade-off has often been at the heart of relocation and has been addressed in different ways, depending on the priorities of the time. In the 1970s, Sir Henry Hardman prioritised regeneration and mandated that departments moved to locations in need of economic development. Resultant moves included the Manpower Services Commission relocation to Sheffield and the move of the Overseas Development Administration to East Kilbride.

8.34 In contrast, Sir Michael Lyons was keen to move away from locations being mandated centrally and instead favoured locations being selected transparently by comparing options against both business case and wider economic impact criteria. This approach was subsequently summarised in the joint report by the Office of the Deputy Prime Minister, HM Treasury and OGC on location choice.⁷

8.35 Although this approach had much to commend it, it has not been widely adopted in practice as organisations have prioritised the business ranking (and their own financial and operational requirements) over any perceived national/regional economic development benefit.

⁷ *Guidance on Location Choice: Choosing Locations for Government Business – Integrating wider economic and policy objectives into location decisions.* Office of the Deputy Prime Minister, HM Treasury and OGC, February 2006

Consequently, I am not aware of any relocation where the destination was switched from the one selected on business grounds to one where regeneration benefits were deemed to be more important.

8.36 I believe that there is merit in continuing to have regeneration as part of the relocation business case and that the existing advice should be retained. However, more is required. I am convinced that achieving more regionally balanced economic growth is critical for the long-term prosperity of the UK and that there is a hidden cost of concentrating too much economic activity in the prosperous parts of London and the South East.

8.37 However, there is a risk that some regional economies become too reliant on the public sector and that the resulting lack of economic diversity can become a significant inhibitor to long-term growth. It is important that activity relocated from London positively contributes to the development of a cluster so that it is capable of attracting private sector investment and enhancing regional competitiveness.

8.38 Consequently, I propose that those organisations that decide to relocate to campuses or clusters identified by the regional estates strategies (and related forums) should be eligible for access to any central funding support. As the location decision remains with the departments, it is critical that the campus sites and clustering propositions being recommended are realistic and meet departmental business requirements. Other agreed relocations may also receive funding if the business case is robust, but there should be a presumption that campuses and clusters identified by the regions are prioritised.

8.39 Finally, I recognise that there are both economic and regeneration benefits to be obtained by moving staff from central London to cheaper locations elsewhere in London and the South East. I am supportive of this as it will help to reduce the high cost London estate as quickly as possible, but there are four critical conditions:

- posts being moved within London and the South East still require a business case as defined by OGC property controls;
- relocations within London and the South East should only be to selected regeneration or growth sites. I would expect this list to be short in order to concentrate the regeneration and clustering benefits;
- relocations within London and the South East should not be eligible for any investment support funding as the lower staff costs resulting from moving over shorter distances should provide sufficient economic incentive on their own; and
- moving posts within London does not count towards the 15,000 target.

[Recommendation 4]

8.40 I recommend that the Government adopts the above approach within its relocation programme. This will lead to significant improvements in the underlying economics of relocation by reducing staff, departure and destination costs, thereby delivering a more self-sustaining and on-going relocation programme that also delivers sustainable regeneration benefits.

9

Outcomes

If my recommendations are implemented in full 15,000 jobs can be relocated out of London in the next five years.

Government should set itself the long-term goal of reducing its presence in London by a third.

Relocation will reduce the size of the London estate by about 200,000 sq m over five years. This will deliver approximately £160 million of ongoing annual savings in expensive London accommodation and salary costs.

Moving to more sustainable buildings will reduce carbon emissions significantly.

9.1 Box 9.A shows a broad high level picture of the current activity in London:

Table 9.A: Civil Service activity in London by organisational group

Civil Service Activity	Number of Employees
Core policy Departments	30,590
Main service delivery: UK Borders Agency, National Offender Management Service, HM Revenue and Customs, Jobcentre Plus, HM Courts Service and Crown Prosecution Service	37,400
Other policy support and delivery, service delivery	16,400
NDPBs (excluding museum staff etc)	5,000
Total	89,390

Source: Based on Civil Service Statistics 2009, ONS, March 2009

9.2 About a third of these staff work in the main Departments of State. Some work on policy issues and either need to be close to Ministers or to support others who do. However, the Departments contain many other functions appropriate to a large corporate headquarters where the arguments for occupying very expensive central London office space are much less persuasive.

9.3 There is considerable variation in the proportion of staff each department has in central London. Some are close to 100 per cent, while other departments have adopted a more distributed model, building up major centres outside London and the South East.

9.4 Without detailed business analysis, it is difficult to identify the optimum proportion of staff each department needs in London. I accept departments have different business needs. However, there is considerable scope for departments to reduce their presence in central London, moving much more of their activity to regional clusters without impacting their overall effectiveness.

9.5 The largest proportion of civil servants work for Agencies providing direct services to the citizen, such as Jobcentre Plus, the HM Courts Service or HM Revenue and Customs. Some of these business areas have been major contributors to the current relocation programme, moving non-face-to-face work away from London and the South East as part of wider business change programmes.

9.6 Identifying what activity needs to be in the same area as the customer and what can be done more effectively elsewhere is a decision for each organisation. This should not mean that such activity is excluded from the same degree of challenge as their parent department. Where non-core activity needs to remain in London, it should be located outside the high cost areas of central London and in locations where there is a specific regeneration or growth potential.

9.7 The remaining civil servants work for smaller agencies or non-Ministerial Departments providing policy support or delivering services directly to the citizen. To these can be added staff working for NDPBs. Some provide local services, (e.g. the Royal Parks) while many more provide national services.

9.8 I am not convinced that many of these organisations need to be headquartered in central London. While they will have many key stakeholders in the capital, their long-term presence should be subject to a much more robust challenge than appears at present. The presumption should be against a London or South East location except for those providing direct services to local communities.

9.9 If the process outlined in previous sections is implemented, I consider the relocation of 15,000 jobs from London alone to be achievable within five years.

9.10 Government should set itself a stretching long-term goal of reducing its overall presence in London by a third. It will need a reduction of this magnitude to achieve a proper balance between London and the rest of the country and complete the transformation that Sir Michael Lyons started.

Potential impact on the South East

9.11 The South East had 53,000 civil servants as at March 2009. Table 9.B shows those organisations employing over 1,000 civil servants, representing about 80 per cent of the total.

Table 9.B: Civil Service activity in the South East by organisation

Organisation	Total Employees in South East
Ministry of Defence	11,250
National Offender Management Service	8,760
HM Revenue and Customs	7,630
Jobcentre Plus	6,240
HM Courts Service	2,430
Defence Science and Technology Laboratory (MoD)	2,050
UK Borders Agency	1,890
Child Maintenance and Enforcement Commission	1,160
Ordnance Survey	1,160

Source: Civil Service Statistics 2009, ONS, March 2009

9.12 The pattern of occupation is very different from London. For example, with the exception of the Child Maintenance and Enforcement Commission in Hastings and Ordnance Survey in Southampton, all the rest deliver regionally based services in one form or another. The largest,

the Ministry of Defence, has civilian staff on its operational bases throughout the region. The others such as Jobcentre Plus and HM Revenue and Customs, provide face-to-face services to the citizen.

9.13 Government and commercial benchmarks show property costs in the South East differ little from the rest of the country.¹ Likewise data on civil service pay shows little regional variation outside London.² Consequently, the financial case for relocating existing activity from the South East is likely to be weak, unless it is part of a wider business change programme and subject to other and perhaps stronger business drivers.

9.14 It is unlikely that the South East will be a significant contributor to the future relocation programme. Those relocations that do occur may well be balanced by activity moving into designated regeneration areas within the region.

Property

9.15 The size of the civil estate in London is as shown in Table 9.C:

Table 9.C: Civil estate in London

	Near Whitehall		London	
	Number of buildings	Area (000 sq m)	Number of buildings	Area (000 sq m)
Freehold	21	202	44	305
Leased	115	616	259	930
PFI	15	309	63	493
Total	151	1127	366	1728

Source: OGC e-PIMS

9.16 About 65 per cent of all government office property in London lies within the area immediately around Whitehall, shown separately in Table 9.C. This comprises the five postcode areas: SW1, SE1, W1, WC1 and WC2.

9.17 Over half the office property is held under commercial lease. This is likely to present the greatest opportunity to drive reductions in the estate at lease breaks or lease end. There is a significant amount of freehold property, the majority located in Whitehall, such as the Foreign and Commonwealth Office and Downing Street. Office buildings subject to PFI arrangements include the large refurbished Departmental HQ buildings, such as the Treasury, and the network of properties occupied by the Department of Work and Pensions and HM Revenue and Customs.

9.18 15,000 jobs relocated out of London over the next five years equates to 200,000 sq m of office space, at the current benchmarked usage level of 14 sq m per occupant.³ In practice, it will be rather more, given buildings can also house significant numbers of non-civil servants, especially where support services such as ICT have been outsourced.

9.19 This space reduction needs to be set alongside other efficiency gains as buildings are used more intensively. Benchmarking usage has improved by over 20 per cent since 2006 and this trend is likely to continue.⁴ The total demand for office space will also be affected by any changes in overall staffing levels.

¹ OGC Property Benchmarking Service and King Sturge

² *Civil Service Statistics 2009*, ONS, March 2009

³ OGC Property Benchmarking Service

⁴ *Better measurement – better management*, OGC, March 2010

9.20 Sufficient flexibility exists in the Government's London office portfolio to drive both the relocation programme that I have outlined and to respond to reduced demand for space resulting from wider business changes. Lease breaks on government buildings over the next ten years are as shown in Chart 9.D.

Table 9.D: Breakdown of lease breaks in London over the next ten years

	Within Five Years		Five to Ten Years	
	Number of buildings	Area (000 sq m)	Number of buildings	Area (000 sq m)
Near Whitehall	74	217	25	221
Rest of London	48	135	20	49
Total	122	352	45	270

Source: OGC e-PIMS

9.21 The table shows that there is the potential to reduce government office space in London by at least 20 per cent in the next five years by exercising lease breaks or terminating leases at their end. Much of this space is in the most expensive areas around Whitehall.

9.22 In addition, there are a number of office buildings which are freehold and may be suitable for commercial sale. There may also be scope for flexibility within the main PFI contracts.

9.23 Across London there should be the potential to reduce the size of the government office estate by between 400,000 sq m and 500,000 sq m over the next five years.⁵ This is the equivalent of nearly a third of the government office estate in London.

9.24 Against this, there may be good business reasons why some buildings should be retained that could be otherwise released. Sales of freehold buildings may require long lead times and consolidation of remaining activity into a smaller number of buildings takes time. Equally though, this analysis does not take into account the wider commercial opportunities that managing the London estate as a whole may offer in terms of development opportunity or the restructuring of leasehold obligations.

Savings

9.25 There is no single model for relocation. While attention naturally focuses on the moves of whole organisations such as the Office for National Statistics, the experience over the current relocation programme is that much activity has moved incrementally under wider change programmes or as part of normal business reorganisation. In such cases, it has been the work that has moved rather than the people and this can often result in very low transition costs.

9.26 The form and context of a future relocation programme is likely to be equally varied. I have been clear in this review that relocation must be part of a wider transformation if the full efficiency gains and savings are to be realised. Calculations of the potential costs and savings attributable solely to relocation can only be indicative.

⁵ Estimate based on e-PIMS data

9.27 Savings due to relocations will come from:

- Lower accommodation costs;
- Lower staff costs; and
- Greater operational efficiency.

9.28 An estimate of lower accommodation costs can be obtained from the government cost benchmarks for its office estate published annually. Using these as long-term averages, there is a £342 per sq m saving in moves out of central London to other parts of the UK. If this is combined with improved efficiency in the use of space, from the current 14 sq m per occupant in London to the best practice of 10 sq m, the overall saving per individual move in accommodation costs is £5,780 per annum. The overall saving in moving 15,000 jobs from expensive London accommodation to elsewhere in the UK is £87 million per annum in accommodation costs alone. If further jobs can be moved to cheaper parts of London, these savings rise still further.

9.29 Government buildings contain more than civil servants. They also house contractors and service providers who need to work alongside the organisation and require accommodation. At the very minimum, the same accommodation savings will apply to these individuals as well. There is very limited information on the numbers involved, but 10-15 per cent is probably a conservative estimate, giving an additional accommodation saving of perhaps £13 million per annum. Accommodation savings will be larger still if the numbers were reduced significantly by greater use of shared services.

9.30 Overall, the savings in accommodation costs from moving out of expensive London space are at least £100 million per annum at the end of five years – and could be considerably higher. These savings are ongoing and will run beyond the initial five years of this programme.

9.31 Robust data on potential savings in salary costs is more mixed. Information on civil service pay scales collected by Cabinet Office still indicates a £4000 per annum differential between London and the rest of the country, broadly equivalent to the old London weighting, for all grades below Senior Civil Service.¹ Actual pay data reported by ONS show a much lower variation. The position is different again for staff in NDPBs who are not civil servants. However, most organisations that I have talked to that have moved have reported significant savings in their overall salary costs.

9.32 On balance, I believe the £4,000 per annum differential is a reasonable basis on which to estimate initial salary savings. This will give a total long-term saving of £60 million in salary costs.

9.33 Relocation should also be the trigger for other operational efficiency savings as part of a wider transformation of the way government works. These may well be counted under other programmes such as shared services and it is probably inappropriate to attribute them to relocation.

9.34 In broad terms, relocating 15,000 jobs out of London should generate long-term relocation and space efficiency savings of at least £160 million per annum, equivalent to £350 million over the five years of the programme and £1.1 billion over a ten year period.

9.35 In the longer term, I have suggested that government presence in London should reduce by at least a third. Combined with greater efficiency of use, with Departments achieving the best

¹ Cabinet Office

practice benchmarks set by OGC, the requirement for office space in London could eventually halve over the same period.

Costs

9.36 Relocation costs are likely to be more variable. Some moves that just involve the transfer of work can incur little or no costs, if moving into existing accommodation and there are no staff implications. This is more likely to be the case if the numbers involved are small and /or the transfer of work is part of a wider reorganisation where the marginal cost of relocating the work is small.

9.37 At the other extreme, moving an entire organisational unit such as an NDPB can incur significant staff and property costs, even if well managed. Staff costs can include relocation, redundancy, recruitment, training and dual running over the transition period. These could average £40,000 per capita in some circumstances. Likewise property costs in terms of the physical move, dual running over the transition and fit out of new premises could add a further £10,000 per capita.

9.38 In practice most relocations will come between the two. As with the current programme, the majority of relocations will come from within the Civil Service where to date there have been relatively low staff costs attributable directly to relocation. Estimating the cost of the future programme is difficult until there is a better understanding of the precise make up of future relocations.

9.39 As a guide to an approximate order of costs involved, I have assumed a minimum cost per capita of £5,000 for any relocation and a maximum of £50,000 if my recommendations are implemented in full. An even spread of these costs across the programme therefore gives an average total of some £410 million. Clearly this is affected very significantly by the eventual balance between the transfer of activity and the relocation of whole organisations – a 10 per cent variation from the assumed average for instance gives an outturn range of £350 million to £475 million.

9.40 These costs do not include any offsetting benefit such as the realisation of any capital value in the estate being vacated in London which may also significantly affect the final outturn cost. These very preliminary estimates will need to be refined as part of the process I have outlined to identify the activity to be moved from London. Even so, based on these initial estimates of costs and benefits, the overall NPV of the programme over fifteen years is estimated to be about £1.1 billion.

Sustainability

9.41 Government is committed to ensuring its own operations and estate are managed efficiently and sustainably. It has set itself Sustainable Operations on the Government Estate targets and also carbon budgets, committing it to a 30 per cent reduction in its carbon emissions by 2020.² Relocation offers the opportunity to move to highly sustainable buildings that can contribute to this drive.

9.42 All relocation decisions must include consideration of potential sustainability implications. Where possible, buildings should be chosen which are energy efficient and easily accessible by public transport. The social and economic impacts on the local community should also be considered. These issues are an integral part of government's drive to manage its property in the most efficient and sustainable way possible. New property acquisitions for government should fall within the top quartile of energy performance and property built for government should

² Climate Change Act 2008. For further details please see the DECC website, www.decc.gov.uk

meet BREEAM excellent (or equivalent) standards. This will deliver reduced carbon emissions and could deliver financial savings going forward.

9.43 Generally, the existing office estate has a poor energy performance in London, reflecting both the age and nature of central London buildings. The average figure reported for government office buildings in London is 121 kg CO₂ per sq m of office space compared with 89 kg CO₂ per sq m for buildings elsewhere in the country.³

9.44 The overall saving in carbon associated with moving 15,000 jobs out of London is about 0.8 tonnes of CO₂ per annum for each job moved. Based on current data, and taking into account the higher space efficiencies as well as improved energy performance, relocation therefore has the potential to deliver a total saving of some 12,000 tonnes of CO₂ annually.

³ OGC e-PIMS

10

Case Study: Ministry of Justice

Ministry of Justice Estates Transformation

10.1 The creation of the Ministry of Justice (MoJ) brought together responsibility for key parts of the justice system for the first time. The Ministry is making radical changes to provide better outcomes for the public and service users, at a lower cost to the taxpayer.

10.2 *Transforming Justice*¹ will enable the Ministry to:

- get the right responses to peoples' problems at the right time;
- join up across the system to provide end to end, tailored services designed around the user; and
- provide a streamlined, customer-focused infrastructure.

10.3 Estates Transformation is a key part of *Transforming Justice*. Transforming the way the Ministry uses buildings will provide better accommodation at lower cost. The MoJ is responsible for 95,000 staff, in excess of 60 Arm's Length Bodies, a budget of £10bn and occupies some 2700 buildings throughout the UK.² Over five years Estates Transformation will rationalise MoJ's extensive administrative estate to provide:

- the potential to join up the MoJ family and its delivery partners;
- flexibility and connectivity across the MoJ for the benefit of its staff and to enable a more responsive working environment;
- ways to take cost out of the operation, whilst improving performance; and
- further improvements to the MoJ's sustainability agenda.

10.4 The transformed estate will act as a catalyst for dynamic change in the way that the MoJ works. It will deliver real flexibility in the way that people work, balancing the needs for security and flexible working in fewer buildings while operating to High Performing Property standards.

Effectiveness and efficiency

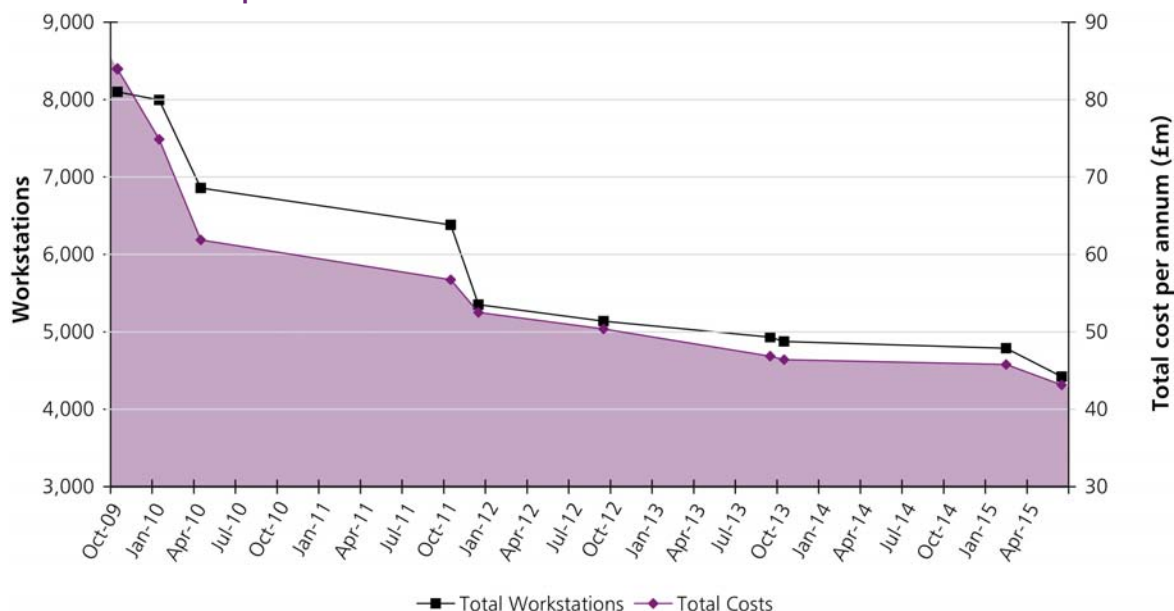
10.5 MoJ commenced its Estates Transformation by consolidating its London estate. It has set new occupation standards for the main administrative headquarters. It has developed a more flexible environment that breaks down the geographic barriers between different parts of the organisation. Based on desk sharing, fully flexible workspace, and adaptable information and communications technology, these new standards use space much more effectively. Some groups now use only 70 per cent of the workstations previously required. In phase 1 of the transformation programme, MoJ will reduce the number of main central London HQ buildings by twelve to leave four. This will offer greater opportunities to collaborate and work as a single, joined up justice service. Relocation is one of the key elements in this transformation of the MoJ

¹ Ministry of Justice change portfolio

² *MoJ Departmental Annual Report 2008/09*, June 2009

estate which will almost halve the MoJ's workspaces and their accommodation costs in central London. This will involve the move of approximately 1,000 posts out of central London by 2015, of which at least 50 per cent will be relocated outside of London and the South East. As part of this transformation, the major relocations of London posts to regional sites will be completed during 2011 and 2012. Groups of posts will be moved in phases, taking the best advantage of available lease breaks.

Chart 10.A: MoJ's planned reduction in costs and desks



By consolidating its less effective buildings and introducing modern desk sharing, fully flexible workspaces, communications and information technology, MoJ will reduce its number of central London workstations from 8,100 to 4,420 by 2015. This will reduce the annual cost of accommodation in central London from £84 million to £43 million.

Source: Ministry of Justice Estates Transformation Programme 2010

Regions

10.6 In the next phase of Transformation, MoJ will optimise the use of its regional administrative estate, making it better able to accommodate partners and facilitate improved business connections and ways of working. The strategy's long-term objective is to reduce the high cost London presence and to focus London based activity on providing front line services, policy development and direct Ministerial support. Thriving regional clusters will provide a base for national functions from central London by offering a combination of both efficiency and effectiveness closer to the regional frontline.

10.7 Government relocation has great significance and MoJ will use a range of criteria to select potential locations with a thorough analysis of data sets. The criteria will be wide ranging, covering value for money, socioeconomic impacts, local and regional partnerships, labour market and career opportunities, transport links, sustainability, health and social factors.

10.8 As part of this transformation in 2009 the Office of the Public Guardian (OPG), a Ministry of Justice agency, initiated a long-term strategy to increase operational resilience and customer focus. Relocations out of London formed an integral part of this. In 2009-10 OPG relocated nearly 200 posts from London to Nottingham and Birmingham.

10.9 83 posts from London were relocated to Birmingham in June 2009 to co-locate with a Tribunals Service office. 117 posts will be relocated to Nottingham by 1 April 2010, where OPG, after examining several property options, occupied an existing MoJ site that had previously been surplus to requirements. This provided clear economic and financial benefits. Firstly, OPG filled existing MoJ properties, which saved disposal costs for one property. Secondly, OPG took the decision to appoint surplus Ministry of Justice civil servants who were already based in Nottingham, saving redundancy and recruitment costs. OPG filled over 70 per cent of posts in this way, and the number of temporary and agency staff employed by OPG has been significantly reduced. The relocation will deliver annually £750,000 of cost savings on salary, accommodation and pensions.

10.10 The relocation to the Midlands has also potentially increased OPG's caseload capacity, and the handling of up to an additional 50,000 applications per year could significantly increase its income. Any extra income will be reinvested to continue improving its service and staff performance.

HM Treasury contacts

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