

# Public sector relocations

**Kieran Larkin, March 2010**

1. This note sets out the Centre for Cities' position on public sector relocations. The note makes three main points:
  - **Public sector relocations can have a positive impact. But relocations have high upfront costs. The savings generated by relocations would probably not start accruing until the Parliament after next.**
  - **Relocation decision-making should be based more explicitly on central government analysis, and be less open to marketing campaigns by individual cities.**
  - **Relocations should favour cities with a smaller proportion of public sector employment, rather than those experiencing economic weakness. Here relocations may be undermining the process of economic adjustment.**

## Context

### **Public sector relocations are back on the political agenda**

2. At the Pre-Budget Report, the Government announced that Ian Smith would be leading a review to look at how civil service relocations could result in 15,000 jobs being moved out of London and the South East.<sup>1</sup> The review will be reporting as part of the forthcoming Budget. The Conservatives have also pledged to cut the cost of Whitehall by a third, saving £3 billion from reduced bureaucracy.

### **The public sector is a major employer in many UK cities**

3. The public sector (defined as public administration, education and health<sup>2</sup>) is a major employer in many UK cities. In Oxford, Cambridge, Hastings, Belfast, Swansea, Dundee, Liverpool, Plymouth and Gloucester more than 35 percent of employment is in the public sector.<sup>3</sup> The national share of public sector employment by this definition is 26.9 percent.

### **The public sector has been a driver of growth**

4. Over the past decade, the public sector has been an important driver of jobs growth in the UK economy. Between 1998 and 2007, 840,300 (69 percent) of the 1.2 million net additional jobs created in UK cities were in the public sector. Excluding the manufacturing sector (which lost jobs over this period) the public sector contributed 43 percent of the additional jobs.
5. In some cities the public sector grew while the private sector declined. For example, in Birmingham while the number of jobs in the private sector fell by 55,500 (5.5 percent of total employment in 1998) the number of public sector jobs increased by 80,900 (8 percent of total employment in 1998).

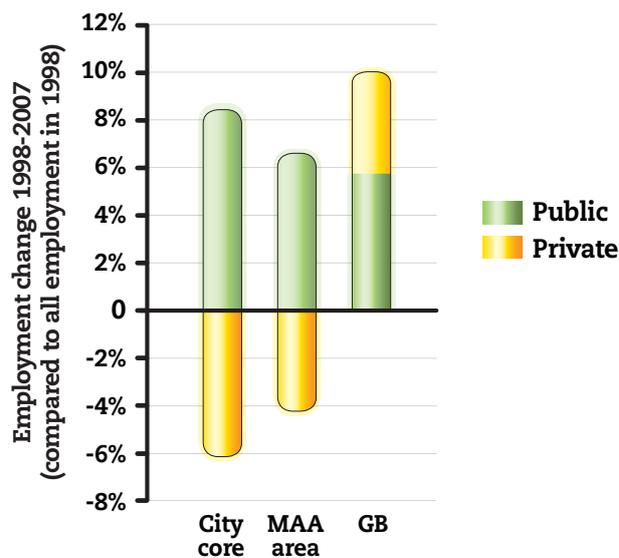
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1. HM Government (200) *Putting the Frontline First: smarter government*, London: the Stationery Office

2. This ABI definition includes private sector workers in the education and health sectors, but is the only data series available at the local authority level.

3. Larkin K (2009) *Public Sector Cities: trouble ahead*, London: Centre for Cities

Figure 1: Employment change, 1998-2007



Source: Nomis, Annual Business Inquiry 2008

### Reduced public spending means that job losses are likely

6. The public sector will not be a source of jobs growth in the near future, as public spending is cut. It is far more likely that total public sector employment will fall. We estimate that public sector employment could fall by 240,000-290,000 jobs over the next spending review period.
7. Certain cities are particularly vulnerable to cuts in public sector employment. We have identified five cities as 'at risk' – Swansea, Hastings, Ipswich, Newcastle and Barnsley. These cities have a high percentage of employment in more vulnerable elements of the public sector. We think that employment in education and health activities, and managerial and professional positions are less likely to experience retrenchment.

## Public sector relocations

### Public sector relocations can have a positive effect

8. The Centre for Cities is supportive of the policy of public sector relocations. Public sector relocations are an effective way of reducing the cost of government, potentially by some 20-30 percent per annum,<sup>4</sup> and may have a positive impact by providing a more nationally balanced approach to policy making.<sup>5</sup> It is also important to recognise that some of the cost savings associated with relocation programmes are efficiency savings that are facilitated by relocations, such as a reduction in total staff headcount, rather than dependent upon the relocations themselves.
9. It is incorrect to think that all civil service jobs are in London – 62 percent of civil service employment in England is already based outside of the Greater South East. However, many of these are non-policy functions and include employment at Jobcentre Plus, the Crown Prosecution Service and the Courts. There is also a clear seniority bias towards London – 19 percent of civil service jobs in London are Senior or Grade 6/7, compared to 2 percent in the North East.

4. Experian (2004) *The Impact of Relocation: A report for the Independent Review of Public Sector Relocation*, London: Experian

5. Marshall J N et al (2005) 'Relocation, relocation, relocation: Assessing the case for public sector dispersal', *Regional Studies*, 39:6, pp. 767 - 787

## Size of relocation programme has been small

10. The size of the Government's relocation programme has been fairly small considering the prominence it has been afforded. Over the period 2004-09, 20,632 jobs have been moved out of Whitehall. This represents 5 percent of total civil service employment in England in 2009 or 14 percent of civil service full time equivalent employment in London and the South East in 2003 (before the relocations began).

## Relocations have tended to be pro-cyclical

11. Public sector relocations have tended to take place on a fairly pro-cyclical basis. This is for obvious reasons – during a boom property prices in London and the South East become more expensive relative to the rest of the country. The reverse process takes place during a recession when some convergence in rental costs occurs.
12. Since 2008, prime rents in the North East (-8.1 percent), the North West (-2.1 percent) and Yorkshire & Humber (-3.8 percent) have fallen by less than the national average (-19.6 percent), which is largely driven by London's decline.<sup>6</sup> The decline in rents in London and the South East makes a public sector relocations programme less financially attractive at this stage in the business cycle.
13. Public sector relocations also require significant upfront investment – new properties, relocation expenses etc – with cost savings delivered in the medium term. Lyons estimated that the upfront cost of relocating 20,000 jobs was likely to be £942 million, with payback taking six years.<sup>7</sup> Therefore it might be unusual for a significant relocations programme to take place during a spending squeeze. Public sector relocations are not going to contribute to an immediate reduction in the fiscal deficit.

## Public sector relocations and inward investment strategies

14. A point of concern for the Centre for Cities is the amount of resources that UK cities have put into attracting public sector relocations. Many cities' inward investment agencies – for example, Sheffield, Plymouth, Tyne and Wear, and Birmingham – have strategically targeted public sector relocations as a growth strategy for their economies.
15. Firstly, it is not clear that these cities should be targeting public sector relocations. Unless the relocated units continue to grow, which seems unlikely in the current climate, the long-term benefit of attracting public sector jobs may not be as positive as spending time attracting jobs in the private sector.
16. Mirroring the previous point on the fairly small size of the relocations programme, the total number of jobs that any one city has managed to attract under the Lyons relocation process has also been fairly small. Liverpool, the largest single recipient, has received 1,900 jobs.
17. Secondly, and more importantly, it seems somewhat perverse for one part of the public sector to spend time and money advertising itself to another part of the public sector. While the total cost may actually be quite small it still does not seem to be a good use of resources. Future relocation programmes should seek to minimise the influence that such agencies might have, thus deterring a poor use of resources.

## Relocating public sector jobs to struggling cities isn't sensible

18. Public sector relocations have often been advocated as an equitable policy measure to increase employment in economically weak places and those that have experienced employment shocks. Essentially, this is another form of redistribution. However, there are a number of reasons to conclude that this might not be a sensible policy.

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6. Parkinson M et al (2010) *The Credit Crunch, Recession and Regeneration in the North: What's Happening, What's Working, What's Next?*, Newcastle upon Tyne: *The Northern Way*

7. Lyons M (2004) *Well Placed to Deliver? – Shaping the Pattern of Government Service: Annex C*, London: HM Treasury

19. Firstly, the public sector may crowd out private sector employment growth.<sup>8</sup> This is a contentious issue and one which academic evidence appears both to support and reject. Invariably, it seems likely that the true impact is dependent upon place and circumstance.
20. Crowding out at a city level predominantly occurs through the wage mechanism whereby the public sector bids up local wages thus reducing the number of employees in the private sector – some of the additional jobs created in the public sector are offset by a displacement effect. As such the effect can be minimised by having a more flexible approach to wage setting.<sup>9</sup> The public sector is also more likely to displace private sector activity where labour markets are tight, as opposed to where labour markets are loose.
21. From an example based perspective, many of the cities that received jobs under the Lyons programme have experienced disappointing private sector growth over the same period. Manchester, Newport and Birmingham – three of the largest recipients – saw their private sector shrink at a compound annual rate of 1.2 percent, 1.5 percent and 0.8 percent respectively, between 2004 and 2007. Clearly, this does not establish robust causation, but a large and growing public sector does not appear to have ‘fixed’ many cities’ problems. Cities with a large public sector also now face the prospect of prolonged job losses during the period of reduced public expenditure.
22. Secondly, there is a political angle. If public sector relocations move jobs to cities already dependent on the public sector it makes it politically more difficult to then reduce the number of jobs in the public sector in these locations in the future. The result may be that as the public sector becomes more efficient it is less able to reduce the number of employees and thus improve productivity. Increasing the proportion of public sector employment in a city may risk encouraging the growth of jobs with a questionable function.
23. Finally, there is an adjustment argument. Some cities, particularly those with an industrial legacy, may need to undergo a period of change to reflect their new economic role. Due to history and geography, it may no longer make sense, or be realistic, for certain cities to be vibrant centres of economic growth. These places will need to find a new economic niche. It is possible that relocating public sector jobs to these locations could slow this adjustment process.

## Conclusion

24. Public sector relocations can be an effective way of reducing the cost of government. However, caution is needed to ensure that the public sector is not used to ‘prop-up’ struggling cities. In the long-run this does not seem a sustainable approach.
  - **Public sector relocations can have a positive impact, but the upfront costs mean that it would be unusual for a significant relocations programme to take place in the short term.**
  - **Relocation decision-making should be based more explicitly on central government analysis, and be less open to marketing campaigns by individual cities.**
  - **Relocations should favour cities with a smaller proportion of public sector employment rather than those experiencing economic weakness. Here relocations may be undermining the process of economic adjustment.**

8. Algan Y (2002) *Public employment: does it increase unemployment?* London: Centre for Economic Policy Research

9. Experian (2004) *The Impact of Relocation: A report for the Independent Review of Public Sector Relocation*, London: Experian