

# Evidence briefing: Assessing the local economic impacts of public sector relocation

## 1. Summary

Public sector relocation typically involves the movement of central government functions – and the employment associated with them – from one part of the country to another. In the UK, this has generally involved relocation from London to the rest of the country outside of south east England.

This briefing provides a framework to help policymakers think through the benefits and costs of public sector relocation. It draws on a rapid evidence review of the evaluation evidence on public sector relocation, and on economic theory and evidence. Reflecting What Works Growth's remit, it focuses on understanding the potential effects on local economic performance. It also looks at some wider benefits such as improving attainment and pride in place.

Throughout this briefing, we refer to the area from which the public sector roles are relocating as the 'origin' and the area that they are relocating to as the 'destination'. Whilst the focus is on the effect on destinations, the same considerations would apply – but in reverse – to origins.

### Key messages

#### **Assessing local economic benefits**

- Focus on the number of new roles, not the headline figures.
- Establish how many roles will be unfilled and require recruitment on relocation.

- The risk of displacement from a public sector relocation is small.
- Carefully assess the risk of crowding out based on local pay and labour market conditions, and the degree of similarity between the activities and skills demands of the relocating public sector organisations and existing local employers.
- The total number of jobs created can be estimated using a multiplier. When applying a multiplier, carefully consider the factors that will affect the size of the multiplier, including supply chain links and where workers work, live and spend.
- Consider whether to encourage the relocating organisations to adopt local procurement policies. This could bring additional economic benefits to the local area, but increased procurement costs for central government.
- Compare the total number of new jobs (both direct and indirect) to the size of the local labour market to assess the likely scale of the impact on the employment rate.
- The effects of a public sector relocation on local productivity are likely to be small.
- Consider whether the relocation may have an effect on private sector demand for higher skilled workers – although, in most cases, this is likely to be small.
- Assess the impact of the relocation on local house prices. These might be large in some neighbourhoods but, in most cases, are likely to be small across the area as a whole.

### **Assessing wider benefits**

- While it is unlikely that public sector relocation will raise local educational attainment, close cooperation with the organisations being relocated could yield benefits in terms of raising awareness amongst local students of public sector careers.
- Public sector relocation may increase pride in place amongst residents.
- Public sector relocation may create opportunities for local policymakers and other local stakeholders to have their voices heard in national policymaking processes. Creating opportunities for deeper interaction between the relocating organisations and local stakeholders may help maximise these benefits.

### **Assessing costs**

- Costs should be assessed and compared to potential benefits.
- Understanding existing pressures on local public services and transport infrastructure will help clarify what additional pressure may occur because of the relocation.

### **Monitoring and evaluation**

- Monitor and evaluate the impact of public sector relocations. This will help improve decisions around future relocations.

## **2. Background**

Public sector relocation typically involves the movement of central government functions – and the employment associated with them – from one part of the country to another. However, for the purposes of this note, we also include any scenario where central government chooses to locate any new roles created (within existing or new departments, agencies or bodies) in a location outside of London.

The [Levelling Up the United Kingdom](#) white paper re-confirmed the UK government's commitment

to its Places for Growth programme to relocate 22,000 civil service roles, including 50 percent of the senior civil service, out of London by 2030.

Relocations announced include the Darlington Economic Campus to accommodate 400 HM Treasury roles and 350 from other departments, relocation of at least 500 Department of Levelling Up, Housing and Communities (DLUHC) roles to the West Midlands, with a headquarters in Wolverhampton, and a new government hub for more than 1,000 civil servants at Fletton Quays in Peterborough. Manchester will become the ‘second home’ for the Department for Culture, Media and Sport.

The white paper sets out the aims as being to *“bring new jobs and investment to all parts of the UK; increase opportunities for people from a wider range of backgrounds; and help to deliver a Civil Service that better reflects the country it serves, with a wider range of voices from beyond Westminster involved in policy and decision-making.”*

The Cabinet Office [announced](#) in 2023 that Places for Growth was halfway to achieving its target, having relocated just over 11,000 roles to outside of London. However, in their 2023 report on [planning for the future of government estates](#), the House of Commons Public Administration and Constitutional Affairs Committee notes that the government is not aiming to reduce the number of roles in London by 22,000 compared to a baseline position. Instead, it is largely creating new roles outside of London and recruiting new starters to fill these roles, arguing that they would have been located in London were it not for the Places for Growth programme.

### 3. Assessing local economic benefits

#### 3.1 Employment benefits

##### **Direct effects**

The main impact of public sector relocations will be an increase in public sector employment in the destination area. Start by establishing how many of the announced roles will be new to the area. For example, the government announcement that 500 DLUHC roles will be based across the West Midlands [included 300 existing positions](#), meaning public sector employment would only increase by 200.

‘New to the area’ roles could be either existing roles that are being relocated, or completely new roles. For existing roles, the current postholder may choose to relocate to the new location. For new roles and any existing roles where the postholder has chosen not to relocate, existing civil servants will generally be offered the opportunity to apply prior to these being open to the public. In both cases, employment will increase in the local area, but other benefits will vary. For example, workers relocating could change the qualifications profile of the area. Establish what proportion of the roles will be unfilled and require recruitment on relocation.

The proportion of these roles which are filled by people living in the local area will depend on the extent to which the skills of the local labour force align with the skills required by the roles. Consider whether interventions such as training programmes may help residents access relocated roles. This will require an understanding of the baseline skills profile of the local area, and the skills demands of the roles.

##### **Key messages:**

Focus on the number of new roles, not the headline figures.

Establish how many roles will be unfilled and require recruitment on relocation.

## ***Displacement and crowding out***

### ***Displacement***

Often, the creation of new jobs by a private sector firm will be partially offset by job losses in other local firms. For example, a new supermarket might create jobs but put smaller shops out of business. This displacement must be accounted for when estimating the overall impact on employment. In the case of public sector relocations, local displacement is rare, because public sector organisations are not usually competing directly with each other or private sector firms.

Displacement can also occur across areas. When a firm moves from one area to another, it creates new jobs in the destination at the expense of the origin. Any public sector relocation that involves the movement of roles from one area to another will involve this kind of displacement. However, for policymakers considering the local economic impacts at destination, this kind of displacement does not need to be accounted for.

### ***Crowding out***

Crowding out occurs when public sector employment negatively affects local private sector firms, for example, by paying higher wages, making it harder for the private sector to attract or retain workers. This can be a particular problem in struggling areas. Public sector wages are usually set nationally or regionally, and so tend to be more competitive in areas where wages are otherwise relatively low. Public sector organisations may also have better working conditions such as shorter hours, and better benefits such as defined benefit pensions with high employer contributions.

The 2004 [Lyons Review on Public Sector Relocation](#) suggests crowding out could be affected by:

- The size of the local disparities between public and private sector pay.
- The extent of pay flexibility in the public sector, and whether flexibility can be used to mitigate upward pressure on local wages.
- Whether the local supply of skilled labour can realistically be increased (for example, are there suitably qualified graduates who tend to leave but might be attracted to stay?).

There could be a particular risk of crowding out where a local cluster relies on similar skillsets to the relocated public sector roles making it more likely they directly compete for the same kind of workers. Clusters are discussed in more detail in the next section.

### **Key messages:**

The risk of displacement from a public sector relocation is small.

Carefully assess the risk of crowding out based on local pay and labour market conditions, and the degree of similarity between the activities and skills demands of the relocating public sector organisations and existing local employers.

## ***Indirect effects***

### ***New jobs in the supply chain***

Public sector relocations can indirectly generate new private sector jobs by increasing demand for goods and services from local suppliers. For example, the purchase of office equipment from a local supplier could increase employment at the supplier. New jobs are more likely if contracts are higher value and ongoing. Effects on local supply chains from public sector relocations are likely to be smaller

than from the private sector as central government tends to procure goods and services nationally rather than locally.

Understanding the relocating organisations' spend profiles and procurement policies will provide a useful starting point for establishing the jobs that could be created through supply chains. Mapping supply chains may help establish whether jobs are likely to be created locally but is challenging to do accurately. What Works Growth's guide on [using data for local economic policy](#) provides more details on this topic.

The supply chain effects could be higher if the relocating organisations commit to adopt a local procurement policy. What Works Growth's evidence briefing on [local procurement](#) sets out how to assess the benefits and costs of taking this approach.

### ***New jobs in clusters***

A cluster is a set of firms and other organisations located near one another undertaking related activities. It is often hoped that public sector relocation will strengthen or create clusters, by:

- Supporting specialist local labour markets (for example, of accountants or lawyers with specific expertise).
- Generating local knowledge 'spillovers'.
- Creating additional demand for the relevant supply chains.
- Sharing of 'indivisible infrastructure' (for example, specialist research facilities).<sup>1</sup>

Interventions to create new clusters of activity are rarely successful, suggesting that, at best, public sector relocations could strengthen an existing cluster.

As clusters are geographically defined, jobs created by strengthening an existing cluster are likely to be within a specific area. As discussed earlier, it will be important to consider the risks of crowding out private sector employment in the cluster.

The possibility of knowledge spillovers between public and private sector needs to be realistically assessed. Civil servants working from a policy or regulatory perspective may not generate knowledge that is relevant to, or shareable with, a firm working from a commercial perspective.

### ***New jobs from increased demand***

Further jobs can be created by additional income that is spent locally.<sup>2</sup> For example, increased local employment may increase demand for goods and services on the local high street, creating additional retail and hospitality sector jobs. These jobs will tend to be in 'non-tradeable' sectors, which means they need to be done locally, either because they require face-to-face interaction (for example health care, education, hospitality) or because local production overcomes substantial transaction costs related to distance (for example local food delivery and perishable goods).

The number of jobs created will depend on where those taking up relocated roles choose to work, live, and spend.

- The location of relocated roles will have implications for weekday demand for local goods and services. For example, on the nearest high street. Impacts will be most noticeable if jobs are concentrated on a small number of sites. If more flexible working from home practices are adopted, the impact on the local high street will be less pronounced than it would be if all

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1 For more detail see: Duranton, G. and Puga, D., 2004. "Micro-foundations of urban agglomeration economies", in Henderson, J. V. and Thisse, J. F. (ed.), *Handbook of Regional and Urban Economics*, Edition 1, volume 4, chapter 48, pages 2063-2117, Elsevier.

2 Any increase in local wages resulting from the relocation will also have a similar effect, although the employment effects are likely to be larger.

workers are onsite.

- Where workers taking relocated roles live will have implications for spending. For example, if roles are taken by individuals from neighbouring local authorities, or if relocating workers choose to live in neighbouring areas, the impact of increased spend will be dispersed across a wider area. If workers are better paid and more highly qualified than the local average, they will tend to live in more expensive residential areas and travel further to work. Data on local travel to work areas can help with understanding commuting patterns.

The scale of additional spend will also depend on the pay associated with the relocated roles.

### ***Estimating the total impact on jobs - the 'multiplier'***

The previous sections outline the factors which can influence the overall local employment impact of a relocation. The employment 'multiplier' is a figure which quantifies this overall impact. There are several ways to estimate this multiplier which vary according to the extent to which they account for the various factors discussed.

Evidence from previous public sector relocations – reviewed in the What Works Growth [local multipliers toolkit](#) – suggests that the multiplier for public sector jobs is 0.25. This means that, on average, each public sector job creates 0.25 additional private sector jobs in the local area.<sup>3</sup> The 0.25 figure compares to an average private sector multiplier of 1.31.<sup>4</sup> The difference shows the relatively limited impact of new jobs in the public sector compared to the private sector. The Office for National Statistics (ONS) multiplier, based on input-output analysis, suggests that each public sector job creates 0.37 additional private sector jobs in the local area.<sup>5</sup>

The 0.25 and 0.37 figures are averages. The actual employment multiplier for a specific relocation could be different, depending on:

- The extent of local procurement. The greater the use of local suppliers, the more jobs should be created in the local supply chain.
- The extent to which it strengthens or creates a cluster.
- Where affected workers will work, live and spend their income. This will affect the extent to which increased demand for local goods and services occurs within or outside the local area.
- Wage levels for the relocated roles:
  - Higher wage levels should have a larger impact on demand for local goods and services from employees.
  - But higher wage levels also increase the risk of 'crowding out', which can offset jobs created directly and indirectly.

When estimating the multiplier for a particular case, the averages presented above provide rough estimates of the likely multiplier. Assessment of the different factors listed in this section might increase or reduce the multiplier in a specific case, compared to these averages.

3 There are differing conventions for how multiplier effects are presented. Here, a multiplier of 0.25 means 0.25 additional jobs for every job created directly – 0.25 times the number of directly created jobs gives the number of additional jobs. A different convention is to call this a multiplier of 1.25 – 1.25 times the number of directly created jobs gives the number of total jobs. It is important to check which convention is being used.

4 One of the reasons the public sector multiplier is smaller is that, as discussed above, public sector employers are less likely to use the local supply chain. Note that 1.31 is the multiplier for tradeable private sector jobs.

5 More detail on these two methods can be found in on the [What Works Growth website](#).

### Key messages:

The total number of jobs created can be estimated using a multiplier. When applying a multiplier, carefully consider the factors that will affect the size of the multiplier, including supply chain links and where workers work, live and spend.

Consider whether to encourage the relocating organisations to adopt local procurement policies. This could bring additional economic benefits to the local area, but increased procurement costs for central government.

### **Relative impact on employment**

Whether a relocation will make a noticeable difference to economic outcomes depends on the number of jobs created – directly and indirectly – relative to the size of the existing labour market.

For example, the new HM Treasury campus in Darlington will involve 750 public sector roles. Assuming a multiplier of 0.25, this generates a total of 940 new jobs, public and private, in a labour market of about 53,000 people – about 2 percent. The expansion of DLUHC in the West Midlands could mean 200 additional public sector jobs and 50 private sector jobs spread across a labour market of just under 1.5 million – an increase of just 0.02 percent.

### Key messages:

Compare the total number of new jobs (both direct and indirect) to the size of the local labour market to assess the likely scale of the impact on the employment rate.

## 3.2 Productivity effects

If new jobs are higher productivity than existing jobs in the area, this would increase overall productivity.

Measuring public sector productivity is more difficult than private sector productivity as the outputs of public services often do not have a direct monetary value. One option is to use wages as a proxy for productivity. Public sector jobs are often relatively well paid, which will pull average wages up. In contrast, jobs in the non-tradeable sector created through the multiplier effect tend to be relatively poorly paid compared to the labour market as a whole, pulling average wages down. As these mechanisms work in opposite directions, and most relocations are small relative to the overall labour market, overall effects on average wages are likely to be limited.<sup>6</sup>

Productivity could potentially be affected through benefits from agglomeration economies – a term used to describe the benefits of spatially concentrated employment. Gibbons and Graham (2018) find that the average estimate indicates a doubling in city size leads to a 4.6 percent increase in productivity.<sup>7</sup> As most relocations are small relative to the overall economy, any productivity effects arising from agglomeration are likely to be negligible.

Agglomeration economies can also increase the productivity of clusters so there may be some

<sup>6</sup> It is possible that wages are a weaker proxy for productivity in the public sector than in the private sector, but this is still a useful exercise.

<sup>7</sup> [Quantifying Wider Economic Impacts of Agglomeration for Transport Appraisal: Existing Evidence and Future Directions](#), CEP Working Paper No. 1561.

additional productivity effects if a relocation strengthens a cluster. Gibbons and Graham (2009) provide estimates of agglomeration effects by broad industry which can be combined with the likely percentage increase in employment in a cluster to predict the productivity effects.<sup>8</sup>

### Key messages:

The effects of a public sector relocation on local productivity are likely to be small.

## 3.3 Skills demand effects

One of the goals of the Places for Growth programme is to increase the proportion of the senior civil servants that are based outside of London to 50 percent by 2030, and the *Levelling Up the United Kingdom* white paper provides forecasts for the number of senior civil servants that will be based outside London by 2025 by department.

Unless completely offset by crowding out, this will increase demand for high-skilled workers in the area. If the supply of skills increases in response – for example, through improved graduate retention or civil servants moving from the origin area – this may also make the area more attractive to private sector firms that employ high-skilled workers. Factors that will influence this include:

- The expected ‘grade’ profile of the relocated roles. Grades and their accompanying pay-scales can be used to estimate the skills profile of the roles, including the proportion which are likely to be graduate roles.<sup>9</sup>
- The proportion of the jobs created indirectly which are likely to be highly skilled. New jobs in the non-tradeable sector, which tend to be lower skilled, are more likely than new supply chain jobs or jobs in new clusters, which tend to be higher skilled.
- The current size of the high-skilled labour market. What increase is needed to realistically attract new private sector firms, and is that likely, based on the data discussed above?

In most cases, the effects on the size of the local labour market for high skilled workers will be small. Changes in the skills profile of the labour market are likely to happen over the longer term.

### Key messages:

Consider whether the relocation may have an effect on private sector demand for higher skilled workers – although, in most cases, this is likely to be small.

## 3.4 House price effects

Public sector relocation could lead to an increase in local house prices, if it involves workers relocating to the area or otherwise increases local incomes and housing supply does not adjust in response to increasing demand. In practice, unless a public sector relocation is large, its impact on house prices is likely to be limited, but there may be effects in specific neighbourhoods. Assess potential effects by analysing where public sector employees are likely to live alongside local housing supply data.

<sup>8</sup> [Transport investment and the distance decay of agglomeration benefits.](#)

<sup>9</sup> More detail on grades and pay in the Civil Service is provided by the [Institute for Government](#).



### Key messages:

Assess the impact of the relocation on local house prices. These might be large in some neighbourhoods but, in most cases, are likely to be small across the area as a whole.

## 4. Assessing wider benefits

### 4.1 Impacts on aspirations, attainment, and career opportunities

Relocating public sector roles to an area may raise the educational aspirations of students and improve educational attainment, but the evidence to support this is limited.

One of the stated aims of current UK relocation policy is to increase opportunities for entry into the civil service for individuals or communities who may otherwise not consider this as an option. Activities to raise awareness of public sector career opportunities, for example, careers activities with local schools and colleges, could help support this aim.

The civil service offers an apprenticeship route into positions within a range of specialties. Relocation may allow for future apprenticeship opportunities for local young people, providing a route into public sector employment. Again, complementary activities could help support this aim.

### Key messages:

While it is unlikely that public sector relocation will raise local educational attainment, close cooperation with the organisations being relocated could yield benefits in terms of raising awareness amongst local students of public sector careers.

### 4.2 Impact on local pride in place

Another potential benefit of public sector relocation may be increased pride in place, owing to the presence of a central government office or public sector organisation in the area. Once again, evidence to support this is limited.<sup>10</sup>

### Key messages:

Public sector relocation may increase pride in place amongst residents.

### 4.3 Impact on the relationship between central and local decision makers

One of the aims of current public sector relocation policy is to ensure a wider range of perspectives contribute to policymaking. A benefit for local places hosting a relocated department could be national policy which better reflects the challenges and issues faced in that area.

Again, evidence is limited. Creating opportunities for interaction between local policymakers, local stakeholders such as businesses and third sector organisations, and the relocated government

<sup>10</sup> In its report, [Settling in. Lessons from the Darlington Economic Campus for civil service relocation](#), the Institute for Government reports a positive impact on local pride.

organisations may be necessary but not sufficient to help achieve this aim.

### Key messages:

Public sector relocation may create opportunities for local policymakers and other local stakeholders to have their voices heard in national policymaking processes. Creating opportunities for deeper interaction between the relocating organisations and local stakeholders may help maximise these benefits.

## 5. Assessing costs

Assess costs and compare to the potential benefits identified in Sections 3 and 4.

Central government will need to assess the implications for public service delivery.<sup>11</sup> Local decision makers may be less concerned with these and more interested in costs to local residents.

One potential cost to local residents occurs if large numbers of public sector workers and their families moving into the area increases pressure on housing (as discussed earlier) and on local public services such as schools and health services.

If the relocating organisations occupy a single site, this may result in pressure on the transport network.

In most cases, the public sector relocation would have to be large for significant area-wide effects on public services or transport infrastructure. Baseline data on local public service provision and transport infrastructure can help clarify whether and where additional pressure may occur, and what mitigation is required.

### Key messages:

Costs should be assessed and compared to potential benefits.

Understanding existing pressures on local public services and transport infrastructure will help clarify what additional pressure may occur because of the relocation.

## 6. Monitoring and evaluation

This briefing provides a framework to help policymakers assess the benefits and costs of public sector relocations to a local area. Collecting monitoring data and, where possible, undertaking evaluation of interventions of the impact of public sector relocations will help assess these benefits and increase the data and evidence available to inform future decisions.

### Key messages:

Monitor and evaluate the impact of public sector relocations. This will help improve decisions around future relocations.

<sup>11</sup> There are also likely to be cost savings for government of relocation. In its report on [planning for the future of government estates](#), the House of Commons Public Administration and Constitutional Affairs Committee reports that the Cabinet Office's modelling suggests Places for Growth will deliver savings in staff costs of £672 million over 10 years.

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