

Non-technical summary of the research paper 'Relocation of Public Sector Workers: Evaluating a place-based policy' by Giulia Faggio (University of Westminster and ESRC's Spatial Economics Research Centre at LSE)

Prepared for a public hearing in The Danish Parliament on April 22, 2015 in order to provide an overview of the British experience with the relocation of public sector jobs from London to other parts of the UK

Since World War II, the government has used relocation programmes of public sector workers as a tool to boost regional development. In recent years, the move of part of the BBC from London to Salford and the relocation of the ONS headquarters from London to Newport have attracted public attention. Advocates of relocation programmes hold the view of helping lagging regions through public investment. Opponents view relocation programmes (and the associated redundancy packages for workers who chose not to relocate) as wastes of taxpayers money. Despite the attention given by the government and the media, it is not clear whether relocation programmes are beneficial or detrimental for local labour markets.

Research by Giulia Faggio of the University of Westminster and ESRC's Spatial Economics Research Centre investigates the impact of a recent relocation programme, the 2004 Lyons Review, upon the areas that received the relocated jobs. The review proposed the dispersal of about 25,000 civil service jobs – public sector jobs that require little or no face-to-face contact with the public and, thus, can be relocated – out of London and the South East to less prosperous destinations.

The study finds that 100 extra civil service jobs in a local economy 'create' 50 additional jobs in the private sector. In particular, those 100 relocated jobs stimulate the creation of 40 new jobs in business services and finance, insurance and real estate (FIRE) as well as 30 additional jobs in catering. Conversely, the same 100 civil service jobs 'destroy' 20 jobs in manufacturing.

The positive effect on catering is easily understood. Local restaurants and pubs benefit from money spent by public sector staff. The positive effect on FIRE means that estate agencies, insurance companies and local consultancies also benefit from the arrival of civil service staff. Civil servants relocating in an area are likely to search for accommodation, open bank accounts, buy insurance products, etc. In addition, local consultancies and auditing offices might be positively affected by intermediate demand from public sector organisations.

Why is the manufacturing sector negatively affected? Firstly, the inflow of additional public sector workers into a small geographical area is likely to raise housing costs. Secondly, manufacturing products are tradable: they can be produced anywhere and shipped at relatively low cost. Because of higher housing costs and the nature of manufacturing goods, manufacturing employers may decide to relocate themselves moving out of costly locales and into less costly areas.

When analysing relocation programmes, it is hard to know *a priori* the geographical spread of the policy. Evidence suggests that effects are highly localised: they are concentrated in the areas receiving the relocated jobs and they drop sharply beyond 2km from a relocation site. There is also evidence of moderate displacement: 100 additional civil service jobs 'create' 8 additional local service jobs in areas within a 0-1km distance from a relocation site and 'destroy' 2 local service jobs in areas within a 1-2km distance.

Was the policy beneficial for local labour markets? It raised total private sector employment in the receiving areas. It had, however, little impact on neighbouring areas. It also changed the sectoral distribution of local employment towards services and away from manufacturing. Was the policy designed to differentially stimulate the provision of locally-produced goods and services? Probably not, but this is *de facto* what it did.