

# C Cost modelling

## Introduction

C.1 The review has developed a financial model to illustrate key areas of expenditure and saving. This model underpins the cost savings estimates made in chapter 3.

C.2 The model is not based directly on the submissions made by departments but instead is underpinned by data on property costs from the Office of Government Commerce, *King Sturge* and other experts across government. Precise information on staffing costs is less readily available and is an area where there is scope for departments to improve the quality of the data. Information was provided by the Treasury, Office of the Deputy Prime Minister and Cabinet Office. These datasets have been shaped to reflect a series of assumptions made by the review about the management of the relocation process that impact on the timing of relocation, the degree of coordination that can be applied across the public sector to manage down both property and human costs, and other factors.

C.3 The figures generated by this model are not intended to be a definitive guide to the costs and benefits of relocation. They merely provide a fact based illustration. Changes to the underlying assumptions can have a significant impact on the outcomes. To reflect the range of possible outcomes this annex contrasts two scenarios. The main scenario is quite cautious in its assumptions while the second factors in the potential additional savings that a centrally coordinated approach to property management and staffing issues might deliver.

**Table C.1: Summary of relocation costs and benefits<sup>1</sup>**

	<b>Base case</b>	<b>Increased central coordination</b>
	<b>£ millions</b>	<b>£ millions</b>
Upfront costs over first 7 years	942	650
Total savings by year 7	213	555
Total savings by year 15	2,300	2,700
Payback period	6 years	5 years

## Staffing costs

C.4 The model assumes that 20,000 posts in London and the South East are suitable for relocation and that the associated moves are fully implemented over seven years.

<sup>1</sup> All costs and savings in this table are discounted at 3.5 per cent.

**C.5** Redesigning business processes is a key benefit of relocation and allows material efficiency improvements to be made. This issue is discussed further in chapter 3. The model has assumed that, due to efficiency improvements, the relocated activities can be carried out by just 18,000 people. This estimate may be cautious as some submissions to the review suggest that up to 25 per cent of the posts to be moved from London and the South East may be removed through process improvements.

**C.6** The model has assumed that, of the 2,000 posts that are not required for the relocated activity, 750 are subject to redundancy and 1,250 are either reassigned to other parts of the public sector or leave the service through normal staff attrition.

**C.7** Of the 18,000 posts that are still required the model has assumed that, over 7 years, 6,300 choose to relocate and receive relocation packages as an incentive; 2,975 find new posts elsewhere in London and the South East; 2,975 posts are vacated through normal staff churn; and 5,750 staff are made redundant and as a result have to be compensated. 11,700 posts will be recruited locally.

**C.8** The model assumes that the average cost of redundancy including a compensation payment is £65,000. This is based on the methodology outlined in the PSCPS Early Severance Booklet and additional work done by the Treasury.

**C.9** The model uses an average relocation package of £32,000 which is based on information provided by Cabinet Office, and has allowed for recruitment costs of £5,000 per post for each job that has to be filled locally.

**C.10** Therefore, the staff costs associated with moving 20,000 posts from London and the South East are estimated at a little over £680 million.

**C.11** The variant of the model that assumes a central body is able to play a role in coordinating relocations reduces these upfront costs to approximately £430 million. This reduction is achieved by assuming that fewer redundancies are required and that a greater number of post holders can be found alternative public sector employment.

### Accommodation costs

**C.12** The second major set of costs associated with relocation are those connected to vacating properties in London and the South East and acquiring premises elsewhere. Close working with the Office of Government Commerce and *King Sturge* has allowed the model to reflect an overview of the public sector estate, the London property market and rental costs across the United Kingdom.

**C.13** The model has assumed that a typical public sector worker in London has 15 square metres of space and so, as a result of relocation, 300,000 square metres of London property can be vacated.

**C.14** Of this 300,000 square metres, it is assumed that 10 per cent could be vacated by taking advantage of lease break points, and that 5 per cent of the space is in properties with freeholds owned by departments and can therefore be vacated at any time. A further 25 per cent could be vacated cost effectively through minimal coordination in line with current practice. The final 60 per cent may only be exited through the payment of a reverse premium or lease exit penalty.

**C.15** Reverse premiums for central London are significantly higher than those for outer London and this has been reflected by the model using two different amounts. Central London is subject to penalties of £2,000 per square metre while the model uses an outer London rate of £1,000 per square metre. The model assumes that 85 per cent of the space incurring exit penalties is subject to the higher rate.

**C.16** In addition to reverse premiums, any leasehold space that is vacated is likely to incur dilapidation costs which are typically £300 per square metre. Furthermore the space that organisations acquire outside London and the South East will require fitting out and the transfer of furniture, systems and records from the existing office.

**C.17** Removal costs and fitting out are typically £500 per square metre although the review has assumed that less space per person, only 13.5 square metres, will be required in offices outside London due to improvements in flexible working arrangements and building utilisation and that 30 per cent of those that do relocate will move in to existing parts of departments' regional network rather than occupy new space.

**C.18** In total, over seven years the review believes that the property costs associated with relocation might be in the order of £360 million.

**C.19** Central coordination of the London estate, improved management of existing regional capacity and greater oversight of the procurement of new property could significantly reduce these costs. The revised model assumes that only 50 per cent of the London estate is subject to reverse premiums and that only 75 per cent of this would be payable at the higher, inner London rate. In addition, a greater proportion of relocated staff could be based in existing parts of the public sector estate and manage with a smaller amount of space per person. To reflect this the model assumes that relocated staff require only 12 square metres each and 40 per cent of those that relocate will be based in existing buildings.

**C.20** These changes to the model reduce the property costs associated with relocation to slightly under £300 million.

### Accommodation savings

**C.21** The savings delivered by relocation are the result of lower property costs outside London and the South East, savings in pay and, thirdly, efficiency savings on both accommodation and personnel through improved ways of working. These benefits are discussed and exemplified in chapter 3 of this report.

**C.22** Reduced accommodation costs are a key driver. The Office of Government Commerce have provided estimates of the total occupation costs of property occupied by the public sector in London. Within central London, they estimate that rent is approximately £450 per square metre, rates £175 per square metre and service charges and running costs of a further £125 per square metre. This gives a total occupation cost for inner London of £750 per square metre. Similar information was provided for a second tier of property in outer London and this has a total occupation cost of £550 per square metre.

**C.23** *King Sturge* provided the review with total occupation costs for cities outside London and the South East. An average of the total occupation cost for prime city centre office space in Birmingham, Cardiff, Manchester, Edinburgh, Glasgow and Bristol was used as the comparator for this part of the model. The average total occupation cost this generated was £377 per square metre.

**C.24** As stated earlier in this annex, the model assumes that each post holder in London occupies 15 square metres and that this will be reduced to 13.5 square metres in the new location. Furthermore, the model takes a view that only 70 per cent of the posts that relocate will be based in new buildings with the remainder collocating in department's existing regional accommodation.

**C.25** If the relocations were spaced evenly over seven years then savings of almost £643 million would have been achieved by the end of this period. From year 8 onwards, ongoing savings of £160 million per annum would be realised.

**C.26** The revised version of the model alters the underlying assumptions so that each relocated post occupies 12 square metres and maintains that only 60 per cent of the posts that relocate are based in new accommodation. The effect of these changes is to raise the savings over the first seven years to £705 million and increase the ongoing savings by approximately £10 million per year.

**C.27** The model does not attempt to quantify the additional income that departments may generate through letting or selling properties they own in London that will be vacated due to relocation.

### Staffing savings

**C.28** The relocation model has estimated the pay savings that transferring posts from London to other parts of the United Kingdom might generate.

**C.29** The average premium paid in the public sector to those based in London when compared to others carrying out the same type of activity elsewhere in the United Kingdom is 27.5 per cent.<sup>2</sup>

**C.30** The model does not attempt to quantify the effect of introducing local or regional pay but simply tries to capture the effect of the current pay differential between public sector jobs in London and the rest of the country. If local or regional pay flexibility were introduced the staffing savings might increase from the 27.5 per cent modelled here to over 35 per cent.

**C.31** The model assumes that for those staff recruited locally, the full 27.5 per cent saving can be realised immediately. Staff that transfer from London and the South East are assumed to be gradually realigned with the local rate over a period of 4 years. Both variants of the model make the same assumptions on pay savings.

**C.32** Over the first seven years of relocation the savings from transferring posts from London pay rates to typical rates elsewhere in the United Kingdom are estimated to be £418 million.

**C.33** The final element of cost savings considered by this model is generated by improving the operational efficiency of relocated activities such that they are able to carry out work previously done by 20,000 people with just 18,000. The 2,000 posts released through this process are assumed to be split between civil service grades B to F and have a grade and pay mix in line with the civil service average.

**C.34** **The savings generated over the first seven years of relocation might be as much as £200 million pounds with ongoing annual savings from that point onwards of £50 million per annum.**

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<sup>2</sup> The London pay premium used in the cost modelling is based on the Labour Force Survey and, as a result, differs slightly from the figure presented in chapter 3 which is based on analysis of the New Earnings Survey.