

Summary

Relocation of government agencies (RiR 2009:30)



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Relocation of government agencies

Riksrevisionen (the Swedish National Audit Office) has examined the effects of the relocations of government agencies that were carried out to compensate regions for the disbandment of military units as a result of the 2004 defence-policy review.

We ask the following questions in our audit: Did the regions obtain full compensation for disbandment through the relocations? Have the operations of the agencies recovered? And were the costs in line with expectations?

Even though several waves of agency relocations have taken place in Sweden over several decades, no overall evaluation has been made of this issue. Hence nobody knows for certain whether the regions where new jobs were created as a result of, say, the disbandment of military units actually received compensation in full.

2,700 jobs were to be relocated

Several regions were affected by the disbandment or relocation of military units as a result of the 2004 defence-policy review. The Riksdag (parliament) therefore decided to take measures to compensate the four regions – Östersund, Karlstad/Kristinehamn, Arvidsjaur and Gotland – most heavily affected by the restructuring of the armed forces. Besides several other projects and the transfer of financial resources to those regions, it was also announced that central-government agencies would be established or moved there to a significant extent. The government jobs that were going to disappear in those regions would thus be replaced by new ones, in that government agencies or parts of them would be relocated from Stockholm.

In all, 2,700 jobs would be moved from Stockholm. Two major agencies, the Consumer Agency and the National Institute of Public Health, were relocated in their entirety – to Karlstad and Östersund, respectively.

The regions were given full compensation – but at a cost

The Swedish NAO finds that both regions to which major agencies were relocated were fully compensated for their job losses by means of those relocations. While it is true that the number of jobs added in each region was smaller than the number lost through disbandment of military units, the new jobs were enough to compensate the regions because of the positive impact they exerted on municipal finances and private consumption.



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For the Consumer Agency and the National Institute of Public Health, their relocation entailed a significant loss of production, above all during a two-year period, which limited their ability to perform their duties. However, we find that their operational volumes have now returned to levels corresponding to those seen before their relocation.

It can be claimed that these relocations were well-timed. The strong economic situation obtaining during the entire relocation process very probably contributed to this outcome. At the same time, the fact that many former military employees chose not to move out helped reduce the regions' need for compensation. This development was not predicted by the Government or the Commission of Inquiry into Agency Relocation.

Even so, there are also grounds for criticism:

- It was never investigated whether there might have been other ways of compensating the regions that would have been better adapted to the beneficiaries' needs and would have cost less;
- It can be called into question whether it is reasonable to restrict the operations of a government agency for several years;
- The cost of relocation turned out to be significantly higher than predicted by the Commission of Inquiry – SEK 1.1 million per job relocated instead of SEK 0.7 million;
- It is not very likely that the additional costs accrued by the agencies can be recovered during the expected 'repayment term' of 20 years;
- The Government has not followed up the effects – neither to determine the real costs nor to assess whether the compensation turned out as intended.

Several factors contributed to compensation

We find that the regions have obtained full compensation for the negative regional effects of the unit disbandments even though the number of jobs created was smaller than the number lost.

Negative effects in the labour market

The balance in terms of the number of jobs was negative for both regions. The relocation of agencies thus did not fully compensate for the loss of jobs, measured as the day-time population, in the regions where military units were disbanded. Another effect of the relocation was that jobs for highly educated men disappeared and more jobs for highly educated women were added. In terms of pay and level of education, the jobs at the military units and those at the government agencies were largely equivalent.



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Positive effects on municipal finances

The net effect on tax capacity exerted by the disbandments and relocations was positive in both regions. This is true above all of the Östersund region, where a large proportion of the former military employees remained members of the night-time population in 2007. In other words, many ex-soldiers were still living in the region and working in some other sector.

The regions have been fully compensated, through the relocation of agencies, for the direct negative effects that the disbandment of military units exerted on overall regional tax base.

Negative and positive effects on local business and industry

When it comes to the demand for goods and services, the reduction caused by the disbandment of military units has not been fully compensated for by the relocation of new agencies to the regions, given that the new agencies' local purchases appear to be slightly smaller than those of the Armed Forces. Both regions turn out to be net losers in that local and regional purchases decreased when the units were disbanded.

When it comes to individuals' and households' consumption of goods and services, both regions are net winners in that the change in the structure of consumption units that took place between 2003 and 2007 is beneficial to the regions. This is above all due to the fact that large families are more likely to have remained part of the night-time population, i.e. to be registered residents of a municipality in the same functional labour-market region.

The agencies' operations have recovered

Our conclusion is that the operational volumes of both agencies were significantly affected in 2005–2008, with a particularly strong negative impact in 2006 and 2007. Now, in 2009, the agencies have largely attained their previous operational volumes if account is taken of the changes made to their operations.

The agencies themselves consider that they have operated at an adequate level of quality. Their users are relatively satisfied with the agencies' operations despite certain shortcomings, according to surveys that we have obtained access to or carried out ourselves. However, we cannot evaluate the development of operational quality since 2004 as there is no comparative material.

Explanations for the loss of production

The main reasons why operations were negatively affected during the transitional period are the following:

- The agencies were required to cover their relocation costs themselves;
- The proportion of employees who moved along with their agency was extremely low (1 per cent);
- Conditions were generous as regards employees' obligation to work and terms of notice;



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- Experienced employees quit, taking their skills and personal networks with them;
- The new employees lacked experience of the respective agency's subject areas. The need for specialist skills was large;
- Skill transfer was a problem – it took several years to rebuild skills;
- Various parts of the agencies were at times understaffed;
- The existing employees needed to devote their time to tasks other than regular operations.

The combined impact of these factors resulted in loss of production.

Costs were higher than expected

The additional costs sustained by the agencies as a result of their relocation have been reported in accordance with the requirements laid down in the Government's appropriation directions for the agencies. The value of the production losses sustained by the two agencies has not been reported, however, since the agencies had not been instructed to report such costs. The Swedish NAO considers it appropriate also to estimate the value of the production loss that arose during the relocation period. This item does not affect the agencies' administrative appropriations but should be taken into account by decision-makers prior to any future relocation decisions.

The Swedish NAO's estimate of production losses indicates the amount of SEK 76 million for the National Institute of Public Health. If the same estimation model is applied to the Consumer Agency, the cost of its production loss would be about SEK 50 million. If these items are added to the reported costs of the agencies, the total cost for both agencies is SEK 280 million. This corresponds to a cost of about SEK 1.1 million (1,077,000) per job relocated (a total of 260 jobs for the two agencies), which is 53 per cent above the ceiling (SEK 700,000 per job) reported by the Commission of Inquiry into Agency Relocation. However, the Government has not expressed any definite views on the expected cost per job relocated.

What lessons can be learnt from the most recent relocation?

Relocation takes time

Relocating a government agency takes at least five years. The Government decision to relocate the Consumer Agency was adopted in June 2005 and stated that the relocation was to be completed by the end of 2006. However, the Consumer Agency has not yet entirely completed the associated work.

There are ways to speed up the recovery of an agency

The relocated agencies themselves had to bear the brunt of their relocation costs. The central-government budget was thus not affected to any significant extent. If the Riksdag and the Government wish to shorten the recovery period from the four to five years that we have observed,



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there may be reason to investigate what additional support could be provided to the agencies concerned.

Realistic viability estimates

The Commission of Inquiry into Agency Relocation estimated repayment periods for the costs arising from the relocations. The Commission's estimation model showed that those costs would be repaid in 20 years. It can, however, be questioned whether this is not an overly long discounting period given the speed of conversion of central-government administration.

Potential for renewal

Both the National Institute of Public Health and the Consumer Agency were facing changes – they were actually already ongoing in the case of the Institute – when the decision to relocate was made. The relocation of the agencies made it possible to implement at least some of the operational changes in a simpler way.

