

Economic impacts of working from home guidance**Drafted: 16 November 2021**

1. Throughout the pandemic, official guidance has led to an increase in the proportion of people either wholly or partly working from home (WFH). Despite such guidance no longer being in place, current levels of WFH are above those prior to the pandemic. If official guidance were to be re-imposed, the level of those WFH would likely increase. Changes in the level of WFH have economic impacts, with the Autumn and Winter Review outlining that mandating WFH would cause “more disruption and has greater immediate costs to the economy and some businesses than the other Plan B interventions”. This note sets out the channels through which these impacts will manifest. Any assessment of the scale of these impacts is highly uncertain, even in the short run. The long run impacts are even more uncertain.

Impacts on consumption

2. Increased WFH is likely to reduce consumption, principally driven by reduced spending by office workers in city and town centres. Specifically, in reduced office-related spend (e.g. hot drinks), indirect social consumption (e.g. after work socialising), and transport spend. However, it is complex to separate out the impacts of WFH from wider behavioural changes linked to other restrictions or voluntary social distancing. Estimating the scale of this impact is highly uncertain. However, some of this reduced consumption is displaced to surrounding areas where homeworkers live and therefore partly replaced by increased consumption of other goods and services. An outline of how previous consumption impacts have been estimated (for spending that is not displaced) is outlined in Annex A.
3. The bulk of this reduced spending will be felt by businesses and workers in city and town centres that are partially dependent on commuters. Businesses in sectors such as ‘Accommodation and Food Services’ and the ‘Arts, Entertainment and Recreation’ will be particularly exposed to reduced commuter consumption. The absence of financial support (as was available during the initial stages of the pandemic) will likely mean the impacts will differ for businesses and workers. These impacts would be complex to assess.

Impacts on productivity

4. Currently firms and their employees can choose WfH arrangements that suit them. Guidance that increases WFH levels would impede these preferred arrangements with impacts on productivity.
5. The literature suggests that firms face differing impacts. Higher levels of WFH may mean firms face reduced overheads (i.e. office space) which could be channelled into increased investment. However, monitoring performance and effective communication may be harder. Firms may also face impacts that affect their wider cluster / sector. For instance, reduced benefits from agglomeration, i.e. knowledge spillovers, sharing of inputs infrastructure, and better employment matching.
6. There are also likely to be diverse impacts for workers. Some workers may prefer the flexibility WFH offers (e.g. from reduced commuting) which may in turn boost productivity. Conversely, other workers may not prefer or benefit from WFH arrangements from reduced interaction, or from reduced formal or informal training and development opportunities – both would reduce productivity. Importantly, quantifying these impacts would be very challenging. Some costs may build and become more apparent over time.

Distributional impacts

7. The distributional impacts will likely be complex. On consumption: As outlined above, consumer-facing businesses face the brunt of the impact of reduced commuter spending. Workers in these roles are disproportionately lower paid, younger, female and ethnically diverse. On productivity: Groups that

report challenges from WFH include those who live in poor quality housing; these will typically be lower paid individuals. Younger employees may see a hit to their long term career prospects and earnings, particularly those at the start of their careers and with greater need for coaching.

Annex A – Estimating the direct consumption impacts of WFH

HMT and CO have previously estimated the direct spending impacts of WFH. They used the following approach:

1. CO Taskforce set out two scenarios:
 - a. Mandatory WFH is not implemented, however a higher proportion of people continue to WFH than pre-covid
 - b. Mandatory WFH is implemented

For these scenarios, CO Taskforce set assumed proportions of the population that (i) only work from home, (ii) mixed WFH with office working, and (iii) only worked from an office.

2. Using CO Taskforce's scenarios, HMT estimated the annual direct effect on consumption of working from home, using survey-based estimates of reduced direct office-related spend, indirect social consumption, and transport¹. This methodology produces highly uncertain estimates which are based on simplifying assumptions, given the complexity in separating out the impacts of WFH from wider behavioural changes linked to other restrictions or voluntary social distancing. They therefore give a sense of the magnitude of the short-term effects of WFH, as opposed to precise economic impacts, particularly as no estimate has been made of the diverted expenditure that people who save more from WFH may spend on other goods and services.
3. HMT analysis, which informed CO's range, was adjusted to remove the c5% of the working population who fully WFH pre-covid. They also utilise lower bounds of the effects based on a range of estimates, primarily to reduce the risk of double-counting other expenditure that may be funded from the savings people make from increased WFH. They also do not reflect the impact of 'mixed' working between home and work locations (i.e. they only consider the effects of fully home working). We have not made any adjustment to reflect that office-workers tend to be higher paid and so may spend more than average on some of the categories of expenditure considered in this analysis.

¹ Key sources: . Nationwide building society [and](#) analysis from Aldermore Bank