



National Audit Office

Reorganising central government

Methodology

March 2010

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- 1 This online methodology accompanies *Reorganising central government*, our 2010 report, and gives further detail to the methodology included in the main report at Appendix 1.
- 2 Our methodology comprised five main elements.
 - i **Identification** of reorganisations of departments and their arm's length bodies between the start of the current Parliament in May 2005 and June 2009, the end date for our examination.
 - ii A **survey** of 51 of the most significant of these 93 identified reorganisations.
 - iii Analysis of the survey returns and development of a **cost estimation model** to estimate the gross cost of these 51 reorganisations.
 - iv An in-depth examination of the planning, implementation, costs and impact of reorganisation for five **case examples**.
 - v **Interviews** with those at the centre of government who have responsibilities for, and provide advice on, central government reorganisations.
- 3 We undertook the majority of our fieldwork in November and December 2009.

Identification of central government reorganisations between May 2005 and June 2009

- 4 There is no central list of central government reorganisations. We followed an iterative process to identify the total population of reorganisations from May 2005 to June 2009.
 - We developed an initial list through desk research, drawing on internal knowledge in the National Audit Office, the Cabinet Office's 'Machinery of Government' web pages and *Public Bodies* annual publication, and departments' annual reports on their arm's length bodies.
 - We shared this list with the Cabinet Office's Economic and Domestic Affairs Secretariat and Propriety and Ethics Team, and with departments' finance sections, updating it in the light of comments received.
- 5 We identified 93 reorganisations of departments and their arm's length bodies: the full list is set out in Appendix 2 of the report. We consider this list to be comprehensive for larger reorganisations, but there is a risk that it does not include some smaller reorganisations, particularly transfers of functions between departments and from departments to their arm's length bodies.

Survey of bodies involved in reorganisations

6 We sent a survey to the 51 reorganisations set out in part 1 of Appendix 2 of the report. We identified these as the most significant reorganisations in terms of the scale of the change and the size of the reorganised body. The 42 excluded reorganisations are set out in part 2 of Appendix 2. They comprise chiefly reorganisations that affected fewer than 20 staff or budgets of under £5 million a year.

7 We designed our survey to capture information for each reorganisation on:

- size, scale and type;
- rationale;
- planning, implementation and management; and
- costs of implementation.

8 We sent the survey to the finance director in the main body affected by each reorganisation. Recognising that several bodies can be involved in reorganisations, we asked respondents to indicate broad levels of cost likely to have been incurred by organisations other than their own, such as the parent department in the case of arm's length bodies.

9 Figures 6, 8, 9, 10 and 11 in our report summarise findings from our survey on the planning, implementation and challenges faced in reorganisations. Although we surveyed 51 reorganisations, some respondents did not answer all the questions in the survey. We have set out, in the note to each figure, the number of responses to each question. The percentages shown are calculated from those responses which specified clear yes or no answers.

Estimating the costs of reorganisation

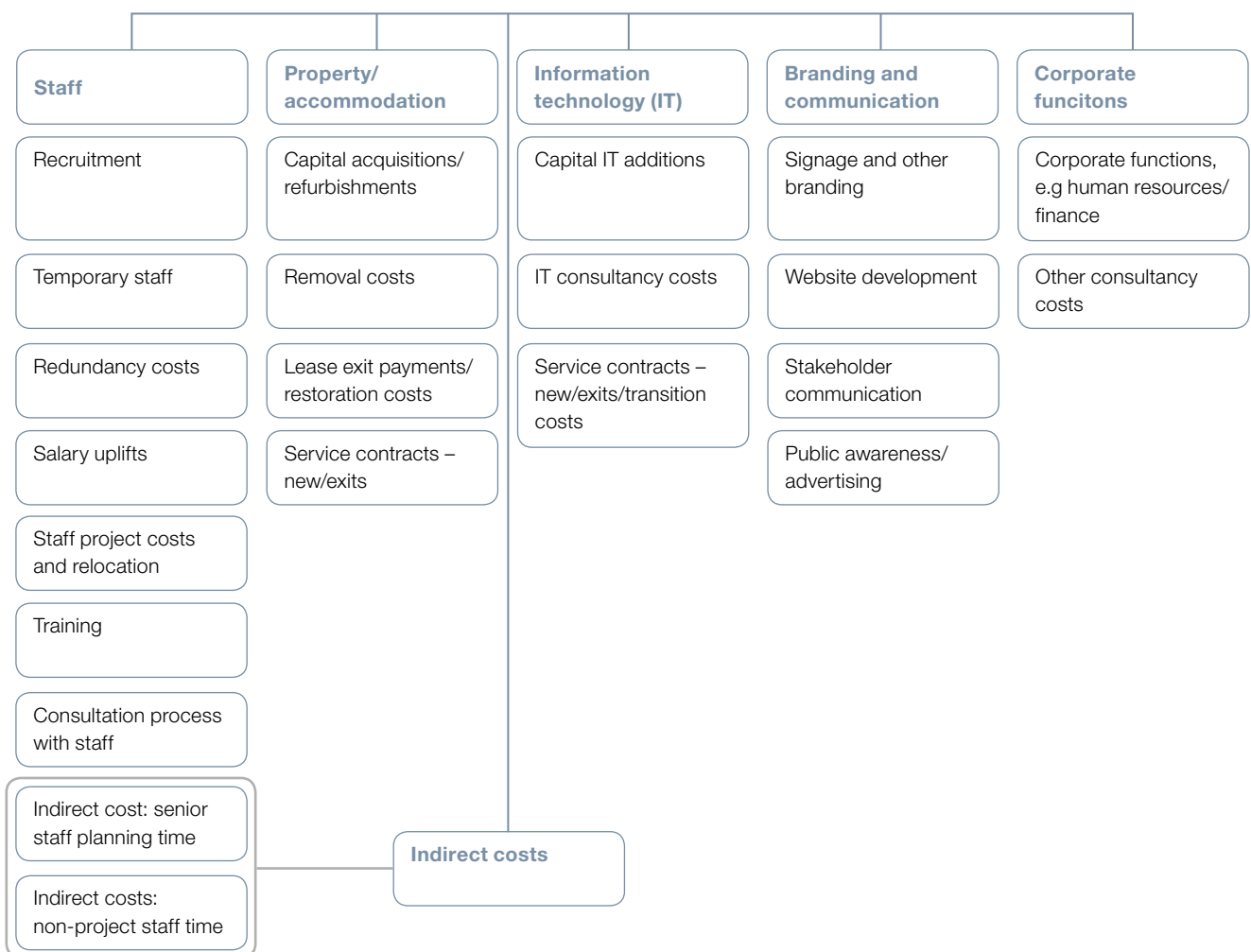
10 We commissioned PricewaterhouseCoopers to construct a cost estimation model to determine a reasonable estimate of the total cost of the reorganisations we surveyed. This model comprised four main elements.

- i** A cost framework, to form the basis for questions asked in the survey and data input into the model.
- ii** Typologies of different types of reorganisation.
- iii** Assessment of data completeness and quality.
- iv** A proxy process to give best estimates for cost data that were missing or of poor quality in the surveys.

11 PricewaterhouseCoopers used their experience of mergers and acquisitions to develop a cost framework for capturing reorganisation costs. The model comprises six cost categories and 22 cost elements (**Figure 1**). Our survey asked respondents to rate the impact (no, low, moderate, high) of relevant cost elements on each cost category and to provide their best information on these costs.

Figure 1

Cost framework for central government reorganisations developed by PricewaterhouseCoopers



Source: PricewaterhouseCoopers

12 Based on their experience of mergers and acquisitions and analysis of the survey responses, PricewaterhouseCoopers identified ten broad typologies of central government reorganisation (**Figure 2**). The typologies reflect the nature of the reorganisation and whether or not the body is standalone or has a parent body.

Figure 2

The ten typologies of central government reorganisation

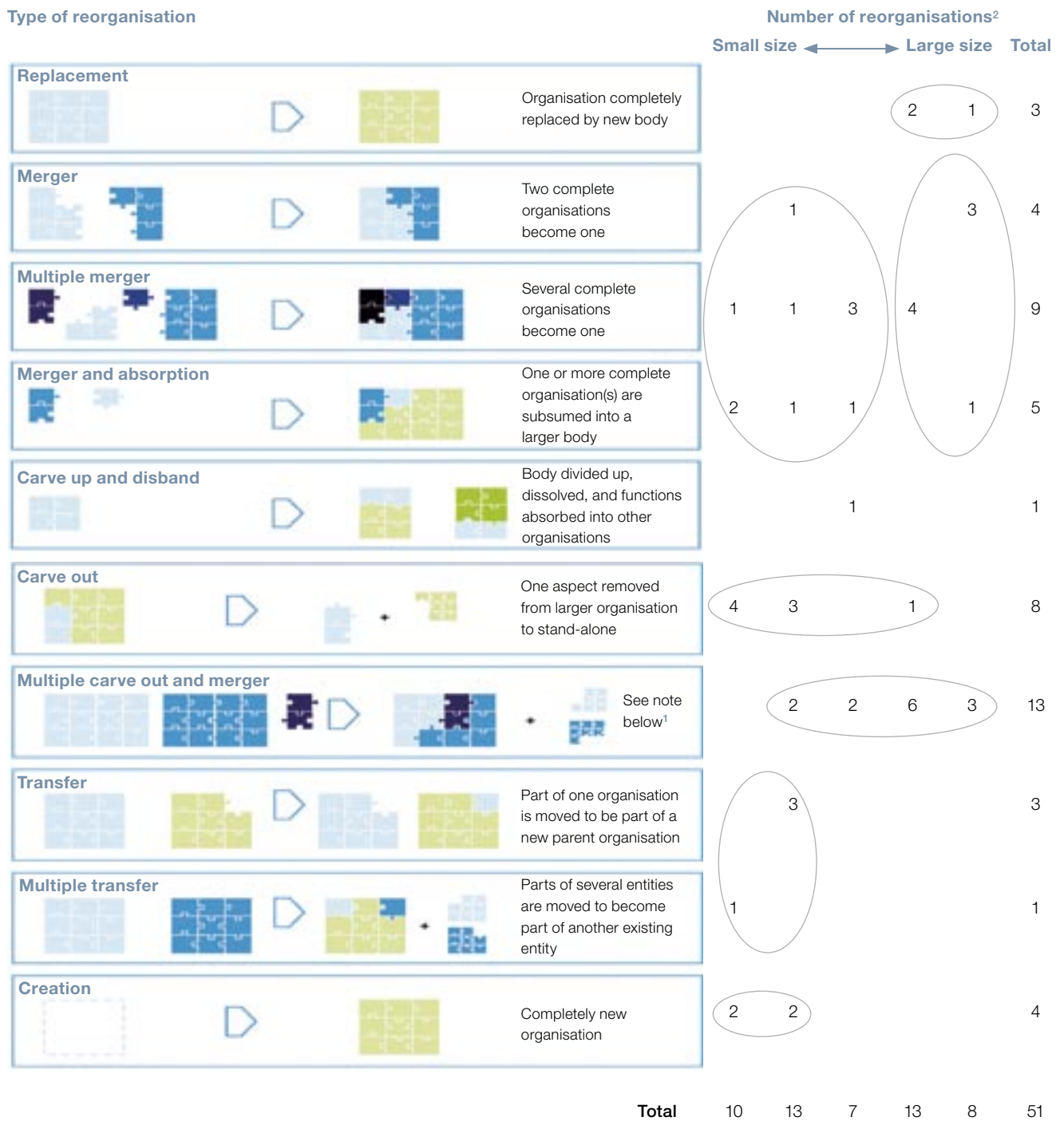
Old organisation was standalone	1 Replacement: An existing body is completely replaced by a new organisation	4 Merger and absorption: Organisation(s) are subsumed into a larger body	Other types
	2 Merger: Two existing organisations are combined into one organisation	5 Carve up and disband: An existing body is divided up, dissolved and its functions absorbed into other organisations	
	3 Multiple merger: Several existing organisations are brought into one organisation		10 Creation: Creation of a completely new organisation
Old organisation had a parent body	6 Carve out: Part of a larger organisation is removed to stand alone	8 Transfer: Part of one organisation is moved to be part of a new parent organisation	
	7 Multiple carve out and merger: Parts of several organisations (in some cases including entire organisations) are removed and combined into a new standalone organisation	9 Multiple transfer: Parts of several organisations are moved to be part of a new organisation	
	New organisation is standalone	New organisation has a parent body	

Source: PricewaterhouseCoopers

13 PricewaterhouseCoopers assigned each reorganisation covered by a survey response to one of these ten typologies, subclassifying them in terms of the size of the organisation, defined by staff numbers and budgets, and identifying clusters of similar reorganisations according to typology and size (**Figure 3**).

14 Survey responses varied in terms of the completeness and quality of the data provided on implementation costs. The time constraints of our fieldwork meant it was impracticable to validate the data directly, so PricewaterhouseCoopers carried out checks on internal consistency and reasonableness, supplemented by cross-checks to annual accounts and to narrative aspects of the survey responses where appropriate. On the basis of these assessments, they assigned quality ratings to the data supplied.

Figure 3
Survey responses analysed by reorganisation typology and size



Source: PricewaterhouseCoopers

NOTES

- 1 Parts of several organisations are removed (and in some cases whole bodies also) and combined into a new standalone organisation.
- 2 The oval groups show clusters of broadly similar reorganisations.

15 PricewaterhouseCoopers developed a proxy analysis approach to determine a best estimate of costs for data that were missing from responses or for responses which were assessed as poor quality. This involved two key stages.

- i** For each reorganisation typology, PricewaterhouseCoopers used survey data that had been assessed as good quality to develop standard average costs to use as proxies for each cost element.
- ii** PricewaterhouseCoopers then applied these proxies to fill in gaps in the completed returns, scaling-up or down the proxies depending on the size of the change and the body, along with other knowledge of the reorganisation available from the survey return, and drawing on results from other reorganisations in the same clusters.

16 The proxy approach generated, for the 51 surveyed reorganisations, £230 million in costs additional to the £550 million gross costs reported in the survey returns (paragraph 2.6 of our report).

17 Where the type, scale and size of reorganisation were known, PricewaterhouseCoopers' cost estimation model could be used to generate estimates of reorganisation costs for non-surveyed reorganisations. PricewaterhouseCoopers applied the model to 16 of the 42 non-surveyed reorganisations for which we had this information, estimating gross costs of £87 million. We did not include this estimate in our report because this area of estimation, using full proxies, is subject to a greater degree of uncertainty than the £230 million estimate based on partial proxies.

Case examples

18 We examined five reorganisations as case examples to obtain an in-depth understanding of the planning, implementation and challenges of different types of reorganisation, and examine in more detail the costs and benefits of reorganisation. We chose three departmental reorganisations, one transfer of units across departments, and one significant reorganisation of an arm's length body.

- i** The multiple transfer of units from the Home Office and the Department of Trade and Industry, to create the **Office of the Third Sector** as a new unit within the Cabinet Office in May 2006.
- ii** The creation of the **Department for Innovation, Universities and Skills** in June 2007 by moving functions from the Department for Education and Skills and the Department of Trade and Industry.
- iii** The merger of The Pensions Service and the Disability and Carers Service, within the Department for Work and Pensions, to create **The Pension, Disability and Carers Service** in April 2008.

- iv The multiple carve out and merger of the Energy Group from the Department for Business, Enterprise and Regulatory Reform, part of the Climate Change Group from the Department for Environment, Food and Rural Affairs, and the Office for Climate Change, to create the **Department of Energy and Climate Change** in October 2008.
- v The merger of parts of the Department for Innovation, Universities and Skills with the Department for Business, Enterprise and Regulatory Reform, to create the **Department for Business, Innovation and Skills** in June 2009.

19 Our case example work involved semi-structured interviews with senior staff involved in the transition programmes, including the transition director and other key transition team members, the finance director, human resources director and communications director. We reviewed relevant documents, including implementation plans, financial information on transition costs and benefits, and, where present, post-implementation reviews and staff surveys. We also interviewed or surveyed stakeholders and reviewed the organisations' stakeholder surveys.¹

Interviews with the centre of government

20 We interviewed staff with responsibility for overseeing reorganisation at the centre of government:

- The Cabinet Office's Economic and Domestic Affairs Secretariat, for reorganisations of departments.
- The Cabinet Office's Propriety and Ethics Team, for reorganisations of arm's length bodies.
- The Cabinet Office's Civil Service Reward Group, about harmonising employment terms.
- The Treasury Officer of Accounts and the Treasury General Expenditure Policy team, about budgetary issues.

¹ In our work on the Office of the Third Sector, we sent short surveys to 65 third sector organisations represented in its list of strategic partners or on its advisory group. We asked them about the impact of the change on third sector policy. Twenty organisations (31 per cent) responded. We also surveyed Office of the Third Sector liaison staff across 29 central government organisations, 15 of whom responded (52 per cent). In our work on The Pension, Disability and Carers Service, we consulted Carers UK, Age Concern and Help the Aged, the Royal National Institute for Deaf People and the Citizens Advice Bureau. In our work on the Department of Energy and Climate Change and the Department for Innovation, Universities and Skills, we examined the stakeholder research conducted for the departments in mid-2009.