National Audit Office

REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL

HC 452
SESSION 2009–2010

18 MARCH 2010

Reorganising central government

Summary

1 There have been over 90 reorganisations of central government departments and their arm's length bodies between May 2005 and June 2009: over 20 a year on average. We estimate the gross cost of the 51 reorganisations covered by our survey to be £780 million, equivalent to £15 million for each reorganisation and just under £200 million a year. Around 85 per cent of the total cost is for establishing and reorganising arm's length bodies. The main cost areas relate to staff, information technology and property.

2 This estimate is incomplete, not fully capturing all direct and indirect costs, and not covering 42, mainly smaller, reorganisations. The costs do not take account of financial and non-financial benefits generated by reorganisation, because we found limited evidence of measurable benefits, or of reorganisation being the most cost effective way to deliver those benefits.

3 Central government has always reorganised, even though its fundamental activities change little. Since 1980, 25 departments have been created, including 13 which no longer exist. By comparison, two new departments have been created in the United States in the same period, both of which still exist. Reasons for reorganisation vary. Responses, often rapid, to policy requirements drive reorganisations of departments, while improved delivery and efficiency are the main goals in reorganising arm's length bodies.

4 Responsibility for decisions about the overall organisation of government and the allocation of functions among ministers rests with the Prime Minister. Responsibility for making changes within a department, and to a department's arm's length bodies, rests with the relevant minister, although in most cases this will be subject to the collective decision-making process.

5 The ability of central government bodies to identify reorganisation costs is very poor. There are three significant reasons.

- While the Cabinet Office requires departments to consider the cost implications and most appropriate delivery model before setting up new public bodies, there is no standard approach for preparing and approving business cases assessing expected costs and intended benefits for these and other reorganisations. It is, therefore, easy to take decisions without clearly demonstrating that they are sensible.

- There is no requirement to set reorganisation budgets, so only a half of arm's length bodies began implementation with a reorganisation budget in place, and departments generally never do so. The lack of budgets means true costs are hidden, including from bodies undergoing reorganisation, and are borne by routine business activities in ways that are likely to be unclear and unplanned.
- There is no requirement for bodies to disclose the costs of reorganisations after they happen, so Parliament is not able to consider information in which it has expressed interest. This lack of disclosure further limits incentives to consider value for money when deciding to reorganise.

6 Central government bodies are weak at identifying and systematically securing the benefits they hope to gain from reorganisation. Reasons for reorganisations are expressed in broad terms and do not give clear explanations of expected benefits, creating the risk that some reorganisations may be unnecessary. A range of qualitative and quantifiable benefits is claimed for reorganisations, including higher customer and stakeholder satisfaction, financial savings from estates and back-office rationalisation, and improved policy focus. No departments set metrics to track the benefits that should justify reorganisation, so it is impossible for them to demonstrate that eventual benefits outweigh costs or materialise at all. Arm's length bodies are better at setting metrics, but even here a quarter do not set them and two-fifths do not report progress on metrics and performance indicators to the board.

7 Three-fifths of arm's length bodies did not conduct investment appraisals to compare expected costs and benefits of alternative options before taking a decision to reorganise. As a result, they could not be certain that reorganisation was justified or that the chosen approach was the most cost effective. The Cabinet Office told us it carries out the equivalent of investment appraisals for reorganisations of departments and considers alternative options, but it did not show us any evidence.

8 Any reorganisation is a project, sometimes a very large one, but adherence to key principles of good project management (Figure 9 on page 23) is poor. Having good project management systems in place as early as possible, ideally when a reorganisation is announced or as soon after as possible, is essential for success. Only a quarter of arm's length bodies had project plans in place before announcing reorganisations and a third assessed risks in advance. Departments generally do not have project plans in place before reorganisations are announced because of the short notice involved, so project management plans are inevitably developed as they are implemented. Responses to implementation problems are therefore more likely to be unplanned, rather than based on carefully developed contingency arrangements.

9 Reorganisations of departments and arm's length bodies involve recurring challenges, such as agreeing budgets and aligning staff pay scales, from which lessons should be drawn to be applied elsewhere in the future. Central government bodies commonly conduct reviews to learn from reorganisations but they do not share this learning widely. The Cabinet Office publishes guidance and requests feedback on reorganisations, but does not enforce this systematically. Consequently, its guidance is based only on some past reorganisations. Two separate parts of the Cabinet Office, working together as appropriate, advise on reorganisations of departments and arm's length bodies respectively, as part of wider responsibilities. Staff responsible for managing reorganisations would welcome more external support based on practical insights from others who have been through similar changes themselves.

Value for money conclusion

10 The value for money of central government reorganisations cannot be demonstrated given the vague objectives of most such reorganisations, the lack of business cases, the failure to track costs and the absence of mechanisms to identify benefits and make sure they materialise. Some arm's length bodies apply sound cost management and systematic benefits measurement, but even they cannot necessarily demonstrate value for money. Overall, the value for money picture is unsatisfactory and the costs are far from negligible.

Recommendations

11 We make the following recommendations to address the clear and significant risks to value for money that current arrangements present. They are not intended to affect the ability to change ministerial portfolios but to separate those changes from major departmental restructuring.

a **There should be a single team in government with oversight and advance warning of all government reorganisations.** Over time we would expect the impact of having such a team in place to be that the number of reorganisations would reduce. This central team should have the skills and experience to exercise quality control over reorganisations, with the authority to insist that any conditions it judges necessary are in place and, if they are not, to assign people with relevant skills to the reorganisation project. In order to intervene effectively, the central team would need prior notice of all proposed reorganisations. The central team should:

- oversee a 'cool-off' period for reorganisations of departments, during which time most staff would stay in their current organisations and change would be achieved through, for example, a small support team for ministers and changed reporting lines;
- oversee a review process of these minimally disruptive arrangements after two years, leading to the implementation of more permanent change, if appropriate, at that stage;

- undertake continual assessment of how well the interaction of central government bodies is working and where there is scope or need for improvement; and
- be accountable for overseeing the overall reporting set out in subsequent recommendations.

b **For announcements of significant reorganisations, a statement should be presented to Parliament, quantifying expected costs, demonstrating how benefits justify these costs and showing how both will be measured and controlled.** Recognising the Treasury principle of 'cost neutrality' for reorganisations, the statement should identify which activities are expected to be cut to pay for the reorganisation.

c **Intended benefits should be stated in specific measurable terms that enable their later achievement (or otherwise) to be demonstrated.** The broad terms in which reasons for reorganisation are currently expressed do not enable a clear assessment to be made of whether reorganisation is necessary. A lack of clearly stated intended benefits hinders subsequent assessment of whether the aims of reorganisation have been achieved.

d **The planned and actual costs of reorganisations should be separately identified within financial accounting systems so costs can be managed and subsequently reported.** All bodies affected by a reorganisation should set planned costs before implementation begins, or soon after where this is not practicable.

e **A breakdown of planned and actual costs and financial benefits of every significant central government reorganisation should be reported to Parliament in the organisation's annual report in the year the reorganisation is announced.** This report should also set a date for a final report on reorganisation costs and benefits, and for an interim report at three years if the final report is expected later. The central reorganisation team should consider the level of detail Parliament requires, but this should include all significant costs and financial benefits. The team should also set a clear and appropriate definition of what constitutes a significant reorganisation for reporting purposes.

f **Each body at the heart of a central government reorganisation should share with the Cabinet Office an analysis of lessons learned within two years of the date of the reorganisation.** Such analysis should collect insights from other bodies involved in the reorganisation and draw on feedback from staff and stakeholders. The Cabinet Office should review and update its own guidance annually on the basis of its analysis of these submissions and of the reports recommended above on costs and benefits. The current lack of systematic analysis is a lost opportunity to improve implementation in an area of central government activity that is repeated many times a year.