



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

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Cabinet Office

Reorganising central government bodies

Key facts

262

public bodies proposed for abolition under the Public Bodies Reform Programme

56

public bodies fully abolished by 31 December 2011

£2.6bn

total ongoing savings (after deducting transition costs) by which departments intend to reduce funding for administration in public bodies by 31 March 2015

- 34 per cent** proportion of £2.6 billion savings which will be made by abolishing the Regional Development Agencies and Becta
- 15 per cent** proportion of £2.6 billion savings that other parts of central and local government will have to fund themselves when they take over functions from abolished public bodies
- 9 per cent** proportion of £2.6 billion savings which departments estimate they will make by 31 March 2012
- £830 million** lowest estimate for one-off transition costs of reorganisations, including redundancies
- 65 per cent** proportion of public bodies proposed for abolition that spent nothing in 2009-10

Summary

1 We reported in March 2010 on central government reorganisations between May 2005 and June 2009. We found widespread failure by departments to specify the expected benefits of these reorganisations clearly and make sure they materialise, and similarly to identify and control costs. This report considers reorganisations proposed or implemented since June 2009.

2 Most reorganisations covered by this report (496 of 535) come under the Public Bodies Reform Programme led by the Cabinet Office. The Programme will abolish 262 public bodies, if it achieves its aims, making it the largest restructuring of such bodies for many decades. Many of the reorganisations were also proposed by the previous government shortly before the May 2010 election. Changes outside the Programme include closing the nine regional Government Offices and creating the Office for Budget Responsibility and the Independent Commission for Aid Impact. In this report, we adopt the Cabinet Office's use of the term 'public body' to mean a public corporation or a department's arm's-length body. There is no single agreed definition of an arm's-length body.

3 For this report, we gathered data on reorganisations through a census of departments in the Public Bodies Reform Programme. We focused in more detail on six departments, which together account for most reorganisations, and on eleven case examples covering the main types of reorganisations (Appendix One).

4 The Public Bodies Reform Programme is at an early stage, with only 56 of 262 proposed abolitions completed by 31 December 2011, including one resulting from a merger. Final decisions have not yet been taken on many proposals. For this reason we have not audited individual business cases but have focused on programme management and processes to implement decisions once they are taken. We are reporting at this early stage to give the Cabinet Office and departments the opportunity to act on our recommendations.

5 The Cabinet Office's primary intended benefit from the Public Bodies Reform Programme is to make publicly funded activities more accountable to elected politicians as a result of moving them into departments or out to local government. The secondary intended benefit is to make financial savings. The Programme also helps the Cabinet Office to keep its commitment, in its 2010 Structural Reform Plan, to reduce the number and cost of arm's-length bodies. Reflecting the Programme's policy context and objectives, our report does not examine considerations about which bodies to reorganise or wider costs and benefits beyond those affecting central government.

6 We have assessed the performance of the Cabinet Office, and of departments responsible for reorganisations, against the following criteria:

- whether accountability benefits are clearly expressed and measured (Part Two);
- whether savings are clearly measured and managed (Part Three);
- whether reorganisation costs are known and controlled (Part Four); and
- whether programme management is effective (Part Five).

7 Our assessment criteria are critically important for current reorganisations because improvements in these areas can improve value for money by helping departments to maximise benefits, including those related to accountability, and reduce costs. In addition, clarity and precision about benefits and costs will help departments to improve value for money when taking future reorganisation decisions.

Key findings

Accountability

8 **Changes proposed in the Public Bodies Reform Programme, if they all take effect, will reduce the number of public bodies by 262, with a potentially substantial impact on how policy decisions are taken and how public money is spent.** We base the analysis below on figures from 2009-10 because that was the last complete financial year before the Programme started:

- Departments propose to take over the functions of 67 bodies and to transfer the functions of another three to local government, giving greater control to elected representatives.
- Departments propose to abolish more than a half of their advisory bodies (159 of 287). The Cabinet Office believes this is an important step in providing more direct advice to ministers and confirming their ultimate responsibility and accountability for all the decisions they take.
- A third of all money spent by bodies in the Programme will be subject to greater accountability to elected politicians as a result of moving it into departments (£20.5 billion) or out to local government (£0.1 billion), consistent with the Cabinet Office's definition of increased accountability.
- Most spending (£43.2 billion) will remain at arm's length, in bodies retained with or without substantial reform or in bodies taking on functions from other bodies.
- Functions of bodies spending a smaller, though still substantial, amount (£5.2 billion) will move outside government, to the private and third sectors, or will be completely abolished.

9 The changes will substantially reduce the number of small or inactive bodies, with two thirds of all bodies proposed for abolition spending nothing in 2009-10. The Cabinet Office considers this a significant achievement in reducing complexity and confusion in the public bodies landscape.

10 Despite greater accountability being the primary intended benefit of the Public Bodies Reform Programme, only one of the six departments we examined had proposals for a well-defined, though basic, measure of success for it. The Cabinet Office has not established a measure to help departments maximise accountability, so it is unclear how it will demonstrate greater accountability across government.

Financial savings

11 Through the Public Bodies Reform Programme, the Cabinet Office intends to secure a reduction of £2.6 billion over the Spending Review period 2011-12 to 2014-15 in ongoing funding for administration in public bodies. The reduction is the total saving that departments estimated, in March 2011, would follow from their proposed reorganisations. It is a net saving after deducting one-off transition costs from ongoing gross savings.

12 Savings should continue after the Spending Review period. On the basis of savings that departments expect to achieve in 2014-15, current estimates of ongoing savings are between £800 million and £900 million a year after the end of the Spending Review period.

13 The £2.6 billion is part of larger reductions, of £33.0 billion in total, which include cuts to capital and programme spending through reducing activities. These larger reductions could be made independently of reorganisations and, in practice, are focused on bodies being retained. Our report focuses on administrative savings because these are the result of reorganisations or associated changes.

14 A third of the £2.6 billion (34 per cent or £0.9 billion) comes from just two changes. These are the closures of the Regional Development Agencies and the education body Becta.

15 Departments' estimates of savings, used to determine the figure of £2.6 billion, are imprecise because many reorganisations will not happen for some time. In particular, consistently estimated savings are not yet available for individual bodies, as in the following examples:

- The Department of Health is planning large changes, not yet finalised, to the whole health system. Reorganisations covered in this report form a small part of the total. The Department's estimate of savings under the Public Bodies Reform Programme is based, without further detail at this stage, on its plan to reduce overall administration costs, as required, by a third in real terms by the end of the Spending Review period.

- The Department for Environment, Food and Rural Affairs has identified savings from individual bodies amounting to just under half of the total savings to which it is committed. It has not yet determined in detail how the balance of reduced spending will be achieved.
- The proposal to merge the Office of Fair Trading and the Competition Commission includes a range of savings dependent on later decisions.

16 More fundamentally, the Cabinet Office does not yet have the means to confirm the removal of £2.6 billion from administrative budgets. This is because information is not yet consistently available to identify baseline administrative spending. The Cabinet Office will be able to check the intended reductions of £33.0 billion in total funding to public bodies but will not be able to verify how much of this is for administration. The Cabinet Office has sought assurance on accuracy from departments when collating and aggregating their savings estimates, but has not validated estimates itself.

17 Most departments have not attempted to estimate the costs to other parts of government of taking on functions previously delivered by public bodies. There will be ongoing costs of transferred functions in abolitions accounting for £0.4 billion (15 per cent) of the £2.6 billion savings. Other parts of government will have to find savings elsewhere to pay for administering these newly acquired transferred functions.

18 There are two further complications in calculating the £2.6 billion figure. First, most departments have not identified which savings are due to the Public Bodies Reform Programme and which are from wider efficiencies. In particular, they have included savings of £0.5 billion for bodies being retained without substantial reform. Second, departments have not adopted consistent definitions of public bodies, with some including executive agencies, for example, against Cabinet Office guidance.

Transition costs

19 Most departments have not yet made adequate estimates of the transition costs of reorganisations. To date, they have identified costs for reorganisations covering just 51 per cent of all employees affected by the Public Bodies Reform Programme. This shows that departments have not fully developed their plans to realise the estimated net savings of £2.6 billion over the Spending Review period. Where departments have identified costs, they have focused on staff costs, particularly redundancies, with less attention to IT, estates and indirect costs that our previous report identified to be at a similar level to staff costs.

20 We estimate transition costs to be at least £830 million. Our estimate is approximate because it is based on incomplete information from departments. The eventual costs will depend on final reorganisation decisions and the extent to which staff decide to leave without taking up redundancy terms. Departments will have to find gross savings of around £3.5 billion in order to realise their planned £2.6 billion net savings. They cannot fully identify the source of these savings without a better understanding of the size of transition costs.

Programme management

21 The Cabinet Office has appropriate governance arrangements in place but has not secured maximum benefit from them. It organised a Public Bodies Reform Steering Board of representatives from all departments, acting to secure buy-in by appointing the Chair from outside the Cabinet Office. The Steering Board has spread learning but has done so slowly in some important cases. It did not set up a working group on pensions until 14 months after identifying a common problem, and it could have acted more quickly to expand a scheme developed by regional Government Offices to manage redundancies. The Cabinet Office applied good practice in identifying common risks, assigning risk owners and learning lessons, but has been less active in focusing routinely on key risks, in particular the risk of weak savings estimates.

22 Despite weaknesses in defining and tracking benefits and costs, we found examples in departments of good programme management:

- All six departments that we examined in detail, and all eleven case examples, had appropriate governance and programme management arrangements in place, including programme boards, senior responsible owners, project initiation documents and risk and communication strategies.
- Departments have supported the Government's policy of minimising compulsory redundancies, with our case examples limiting these to 8 per cent of staff leaving. All our case examples have provided training and careers advice for staff being made redundant.
- All six departments provided examples of sharing lessons internally and with other departments. All of the case examples for which it was appropriate were subject to internal audit and external review.

23 Public bodies remaining after the current round of reorganisations will be subject to an ongoing review programme. Under this programme, each department will review each of its remaining non-departmental public bodies at least every three years. The Cabinet Office intends the new reviews to continue the process started by the Public Bodies Reform Programme.

Conclusion on value for money

24 The Cabinet Office and departments will have secured the largest restructuring of public bodies for many decades if they succeed in making all the changes they propose through the Public Bodies Reform Programme. They are bringing many bodies' functions directly under elected politicians' control and they are on course to deliver cost reductions extending beyond the Spending Review period.

25 In terms of the primary intended benefit of the Public Bodies Reform Programme, described in paragraph 5, the Programme should be a significant success. However, the Cabinet Office and departments have not done enough to secure value for money. Firstly, because they have not sufficiently defined the benefits intended from improved accountability to judge whether they have been achieved, and, secondly, because they are not able to show the amount by which spending has reduced as a direct result of the Programme. Within most departments there is an insufficient grasp of both the ongoing costs of functions transferred to other parts of government and the one-off transitional costs of the changes. They cannot, therefore, plan in a structured way to absorb these additional costs within already shrinking budgets while minimising the impact on their other activities. As a result, departments are not yet well placed to manage the risks to value for money.

Recommendations

26 We make the following recommendations to secure value for money from current reorganisations and to promote value for money from future reviews. Where we repeat aspects of previous recommendations, this is because we are not satisfied that departments have yet responded satisfactorily:

- a** **Departments cannot maximise the intended benefits of change if they do not have clear definitions of those intended benefits.** The Cabinet Office should work with departments to develop measurable descriptions of intended reorganisation benefits and explanations of the mechanisms to be put in place to make sure those benefits materialise. In particular, the Cabinet Office should develop a robust methodology to confirm that £2.6 billion has been taken out of administrative funding for public bodies as a result of the Public Bodies Reform Programme by the end of 2014-15.
- b** **Departments cannot properly manage costs if they have not estimated those costs.** The Cabinet Office should require departments to show that they have considered all likely transition costs, including costs transferred within government, and made reasonable estimates of them, once plans are sufficiently formed to allow this. Among other sources, they should draw on our published guidance on data validation and costing.
- c** **If departments and other bodies fail to share good practice or address common concerns quickly, they will incur unnecessary costs and waste time and money tackling problems that others have already solved.** The Cabinet Office should use its overall coordinating role to promote good practice, and knowledge of common pitfalls to avoid, more promptly. It should actively seek examples from which others might benefit.