MANAGEMENT REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

MARCH 2012

National Offender Management Service

Realising the benefits of the headquarters' restructure

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National Audit Office

National Offender Management Service

Realising the benefits of the headquarters' restructure

Contents

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Summary

1 This management report examines how the National Offender Management Service (the Agency) planned and is implementing the restructure of its headquarters. It examines the Agency's approach to securing a £91 million annual cost reduction against a starting budget of £247 million under the terms of the 2010 Comprehensive Spending Review. It also examines how the Agency identified and managed risks arising from this restructure.

2 In March 2011, the National Audit Office (NAO) shared with the Agency a guide, *Good practice principles: National Offender Management Service – Realising the benefits of restructure*. This drew on the NAO's body of published work examining departmental restructures. Good practice principles or requirements for a restructure include:

- a robust strategy and business case;
- a clear statement of the expected benefits the restructure is designed to achieve;
- clear ownership and responsibilities;
- detailed costing of the restructure and a restructure budget;
- performance monitoring and management to control costs and realise benefits;
- identifying risks and a risk management strategy; and
- evaluating and reviewing the restructure.

3 As the timeline in **Figure 1** sets out, the reorganisation of the Agency's headquarters is ongoing until March 2013. This management review evaluated in real time whether the Agency's restructure is being conducted in line with good practice. To this end, we reviewed key Agency documents on planning, implementing and evaluating the restructure, and interviewed Agency staff responsible for key aspects of it. The audit methodology is at Appendix One. **Figure 2**, on page 6, sets out key findings from this review against good practice principles.

4 In 2010-11, the Agency's headquarters budget was £247 million. The Ministry of Justice (the Ministry) requires the Agency to reduce annual headquarters' costs to £156 million by 2014-15 – a cost reduction of 37 per cent in five years from its baseline. The Ministry requires the Agency to make a significant part of this reduction – £41 million a year – in 2011-12.

Figure 1
Timeline of the Agency's restructuring programme

2010-11 **Annual budget: £247 million**

Oct | Nov | Dec | Jan | Feb | Mar

Spending Review
MoJ[1] to reduce administration costs by 33 per cent

Restructure programme starts

Skills audit
NOMS[1] audit of skills needed in new structure

Structural options
Secretary of State agrees to functional restructure of NOMS

Baseline audit
NOMS audit of current HQ functions and costs

End of regional structure
Regional staff transfer to interim structure. Regional role of Director of Offender Management is removed

2011-12 **Annual budget: £206 million**

Apr | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec | Jan | Feb | Mar

Budget
Reduced via recruitment and discretionary expenditure freeze

New Directors
Directors for new directorates appointed

Directorates designed
Functions identified in baseline audit are brigaded into directorates

Programme merger
Restructure and pay reform programmes merged

Zero-based budgeting
Directors develop budgets for 2012-13

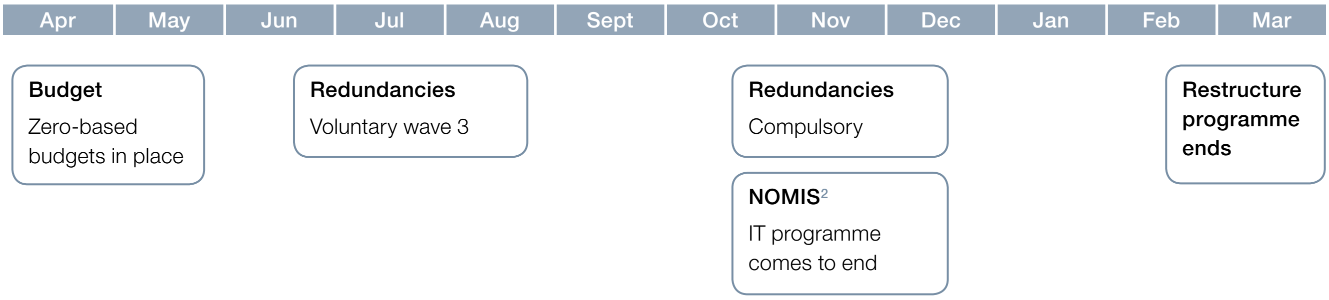
Redundancies
Voluntary wave 1

Redundancies
Voluntary wave 2

NAO report
Management report on restructure programme

Figure 1 continued
Timeline of the Agency's restructuring programme

2012-13 **Annual budget: £183 million**



NOTES

1 MoJ = Ministry of Justice; NOMS = National Offender Management Service.

2 The end of the NOMIS IT programme does not mean that all spending on IT will end at this point, but only on this specific item.

Source: National Audit Office analysis of Departmental documents

Figure 2
The Agency's progress against NAO best practice principles for organisational restructure

Does the Agency have a clear case for restructure?

Agency actions	NAO findings
Is there a clear strategy for the restructure?	The change in government in 2010 led to a move away from regional tiers of management across the public sector. In line with the overall objectives of the 2010 Spending Review and closing regional government offices, the Agency began a restructure to deliver the savings required by the Ministry and to meet the Ministry's requirements for structural reform. These savings could not be delivered within the previous regional structure.
Is there a vision of the future size and shape of the Agency and the benefits it intends to deliver?	The Agency identified a new functional directorate structure for its headquarters, aimed at delivering an annual £91 million of cost reduction by the end of the Spending Review, against a starting budget of £247 million in 2010.
Are there mechanisms to realise the full benefits and minimise the risks of the restructure?	The Agency has developed a strategic approach to cost reduction from 2012-13; it has a structured approach for managing risks, including monthly reports to the board on restructure risks.

Does the Agency have mechanisms to plan, cost, control, and monitor the restructure?

Agency actions	NAO findings
Are the costs of restructuring and the expected payback period quantified?	The Agency has only identified the budget for the central restructure team. It has not identified separate funding for evaluation and review or for wider implementation costs.

Does the Agency have mechanisms to evaluate the restructure?

Agency actions	NAO findings
Are there reporting mechanisms to provide ongoing data on planned and actual costs, benefits, risks, and progress of the restructure?	The Agency's board receives monthly reports on variance against directorate budgets. The restructure team reviews risks to the restructure programme monthly and reports to the board. The Chief Executive Officer chairs the restructure board to monitor progress against milestones.
Is there an evaluation framework for the restructure?	The Agency is considering an overall evaluation of the organisation restructure.
Are there mechanisms to consult stakeholders?	The Agency gained feedback from managers and staff on the restructure and how it affects them.

Key findings

5 **The scale of the cost saving which the Agency was required to make, and the political direction away from regional tiers of government, meant that it was not practical to cost out different options for the restructure.** The change of government in 2010 led to a notable shift away from regional tiers of management. This, in combination with the significant challenge to the Agency of reducing its headquarters costs by 37 per cent, meant it felt there was little practical purpose to cost out fully different options for restructure other than the move towards a functional headquarters. Following a steer from ministers on the preferred structural option, the Agency then embarked upon a bottom-up analysis of how that option would deliver savings.

6 **The Agency decided not to follow a classic programme management model for its restructure to avoid costs.** The Agency made a pragmatic choice to not prepare a budget for the full costs of the restructure, as it took the view that the whole-scale nature of the restructure required an organisation-wide response, involving all directors and teams. The Agency drew up a budget to cover the costs of its small central restructure team. This team drew in resources as necessary from within the Agency, although the Agency did not set a budget to cover these resources. The Agency stated its approach was feasible and would deliver the required outcomes, as the Chief Executive Officer was the Senior Responsible Owner of the restructure.

7 **The Agency has evaluated the skills it requires in its new structure.** The Secretary of State for Justice approved the Agency's preferred option of a leaner functional structure of eight directorates. The Agency then developed a detailed picture of the organisational skills and experience that the directorates would require. It also collected information on the services delivered in the previous regional structure and their costs, which it will use to monitor savings.

8 **The Agency is now forecasting greater payroll cost reductions than it originally estimated.** To reduce costs by £41 million in 2011-12, the Agency aimed to secure early reductions in the payroll bill through a voluntary early departure scheme, together with a recruitment freeze and restricting non-pay spending. In the first half of 2011-12, the Agency lacked a clear picture of the reduction it would secure from payroll costs for the year. It initially forecast a reduction of £8.4 million. Following the first waves of the voluntary early staff departure scheme and the recruitment freeze, the Agency was able to increase this forecast to a £21.4 million reduction in payroll costs.

9 **The Agency does not have a separate budget for evaluation.** The Agency plans to undertake staged reviews of the restructure of its headquarters at different stages of its progress, drawing upon resources from across the organisation. However, in keeping with its approach to managing the restructure, it has not developed a framework for evaluating the restructure. The Agency also does not have a separate budget to evaluate how far the restructure achieves its objectives.

10 The Agency is taking a strategic approach to delivering savings after 2011-12. The Agency has been able to develop a more strategic approach to reducing its headquarters costs to £156 million in 2014-15. It has built up the activities of each new directorate from scratch with the aim of having the leanest possible structure. The Agency has included the reduction of spending on the NOMIS management information system in 2012-13 as a £24.6 million contribution towards cost reductions. It will seek funding for new IT programmes from the Ministry on a bid-by-bid basis.

11 The Agency has developed a structured approach to managing restructure risks and emphasises maintaining staff morale. The Agency has monthly communications to its organisational restructure board on the restructure programme risks. The Agency's board receives and discusses monthly reports on each directorate. The finance directorate provides a highlight report on progress against the required £41 million cost reduction in 2011-12. This helps the board to identify and consider risks to delivering the required cost reduction.

12 The Agency also has a structured approach to managing risks to staff morale and performance, and has put staff communication at the forefront of its approach to the restructure. The Agency has given staff information on all changes to posts. This includes information on: placing staff into posts in the new functional directorates; the appeals process for those considering voluntary redundancy rather than accepting their job match; and information for those who have not been matched to a new post.

Conclusions

13 The Ministry's requirement for the Agency to deliver a 37 per cent reduction in annual costs in five years, and to restructure its headquarters in 2011-12, presented it with a significant challenge. The Agency has responded quickly to this challenge, while continuing to deliver its corporate responsibilities and maintain levels of performance. The Agency's planning and implementation of the headquarters' restructure follows a number of good practice principles for organisational restructure. It has put in place a strategic approach through evaluating the skills it requires in its new functional directorates, engaging with its staff and developing a governance and risk management structure. In addition, by November 2011 the Agency appeared set to achieve greater reductions from payroll costs in 2011-12 than it had originally forecast. The Chief Executive Officer reported during the management review that the Agency was on track to deliver the targeted £41 million cost reduction for 2011-12.

14 However, the Agency did not follow established practice principles for organisational restructure where it considered that these did not justify the resources necessary. For example, it did not develop an overall budget for its restructure.

15 The Agency plans to conduct evaluations at points throughout the restructure using existing resources along with external evaluations conducted by the Ministry, the NAO and the Major Projects Authority. The NAO will examine how far the Agency reduced costs in 2011-12 against its target and its approach to delivering the £91 million annual cost reduction by 2014-15 in a forthcoming value for money examination.

Part One

Planning the restructure

1.1 In 2010-11, the National Offender Management Service (the Agency) faced significant new challenges to its functions and operations:

- The outcome of the Spending Review 2010 required a minimum one-third reduction in the Agency's annual administrative costs over the period to 2014-15.
- The Ministry of Justice's (the Ministry's) Business Plan 2011-2015 required significant and complex structural reform in the Agency's service delivery. A 'rehabilitation revolution' introduced payments by results and increased the involvement of the private and voluntary sectors in provision.

Drivers for the restructure

1.2 The Spending Review 2010 and the Ministry's Business Plan 2011–2015 set the parameters for the timescale, nature and required goals for the Agency's restructure.

1.3 The Permanent Secretary at the Ministry asked the Agency's Chief Executive Officer to undertake a wide-ranging 'root and branch' review of the Agency's structures. The review aimed to look at how to reduce administrative costs and restructure the Agency to help deliver the rehabilitation revolution.

The Agency's review of the existing operating model

1.4 The Agency incorporated the Spending Review and Business Plan drivers, and the review of the existing operating model, into a strategy for organisational restructure. This produced early clarity on the significant nature and scale of the changes needed.

1.5 By early September 2010, the Agency had outlined options to refocus how it managed prison and probation services. The options aimed to align with priorities set out by the coalition government and to reduce administrative costs by at least a third. The options ranged from having fewer regional directors, to a more fundamental option of the abolition of the Agency, should Ministers decide to do so. The Agency also used the review to evaluate the performance of the existing regional structure. The evaluation identified and addressed weaknesses in how public sector prisons are managed. It found that the regional management structure did not sufficiently support and manage public sector prisons, resulting in a 'lack of grip' and weakening performance. As a result, the Agency introduced a Director of Public Sector Prisons in the new functional structure to address these weaknesses.

The Agency conducted early work to identify alternatives to the regional structure

1.6 By September 2010, the Agency had developed five alternative options aimed at aligning the structure of its headquarters with the requirements of the Ministry's Business Plan (**Figure 3**). The Agency's Chief Executive Officer recommended structuring it by function and removing regional Directors of Offender Management. The Secretary of State for Justice accepted this recommendation.

1.7 The Agency decided not to carry out modelling work to assess the cost reductions each structure was capable of delivering. It also decided not to assess how costly each option would be to put in place. It considered that doing so would have wasted effort, as it did not know at that point what was acceptable to Ministers. The Agency preferred instead to include in its submission a high-level assessment of the relative ease of achieving cost reductions in each option. It waited for a ministerial decision, which was for the option of central functional directorates, and then undertook a bottom-up analysis of how that option may deliver the required annual £91 million cost reduction against the starting budget of £247 million.

The Agency identified the skills needed in the new functional model

1.8 In December 2010, the Agency's organisational development team conducted an audit of the skills required by each functional directorate. They aimed to:

- inform decisions on voluntary early departures;
- decide which posts would be required within the new structure and the design of each directorate; and
- identify critical post-holders to retain during the voluntary early departure scheme.

Figure 3
Outline features of the initial options for the Agency's restructure

Option 1	Status quo: retain the current Agency structures
Option 2	Four regions model
Option 3	**The Agency's preferred option:** structure the Agency by function: • Remove regional Directors of Offender Management • Introduce functional directorates: commissioning; contract management and system integration; management of public sector prisons • Reduce the number of directors from 15 to 8
Option 4	Move commissioning, contract specification and letting responsibility to the Ministry
Option 5	A pure purchaser/provider split

Source: National Audit Office analysis

1.9 The Agency developed a detailed picture of the skill requirements of each functional directorate. It also generated detailed information on the services delivered and their costs in the previous regional structure, against which it plans to monitor savings.

The Agency developed a new governance framework for the functional operating model

1.10 The Agency has developed a new framework for effective governance. The framework reflects the drive for cost reductions and the reduced number of directors in the new structure. A key purpose of the framework is "getting the right people, in the right place, to enable informed decision making". The framework includes:

- an Agency board. The board focuses on the Agency's strategic priorities and is responsible for strategic direction, performance management, finance, and risk assessment management;
- an executive management committee. The committee supports the Chief Executive Officer through information sharing and monitoring the finance and investment, workforce and change committees; and
- delivery, operational services, commissioning and competition, and security committees and subcommittees.

Monitoring and controlling the costs of the restructure

1.11 The Agency established a small core programme team responsible for planning, implementing and managing the restructure programme and developed a budget of approximately £828,000 for this team for the duration of the restructure.

1.12 The Agency decided not to establish an overall budget for the full range of restructure activities, such as staff communications, relocations or retraining, as it considered this helped to avoid costs. Additional subject experts from other functions within the Agency, called in by the central team to contribute to the restructure programme, do not record or charge their time to the restructure. The Agency also does not record or charge to the restructure the time and work of wider elements of the restructure programme. These costs include staff consultation and communications on the changes and the costs of human resources time and support for departing staff. The Agency has not established the opportunity costs of the restructure programme in diverting staff away from other duties. It took the view that the whole-scale nature of the restructure required an organisation-wide response, involving all directors and teams.

1.13 The Agency felt that the costs of monitoring staff time and other restructure activities would have conflicted with other priorities in implementing the restructure. The central restructure team reported that drawing in experts from within the Agency gave them broader access to experts than if they were formally assigned and budgeted to the team.

1.14 The Agency also stated that it was sensitive to how a large central restructure team and a large restructure budget would look while it was reducing both the size of its headquarters' functions and the number of staff. It preferred to send out a message that remaining staff could contribute to the restructure and move into new posts in the restructured organisation.

1.15 The Agency has also incorporated its reward and restructure programme into the organisational restructure programme. This makes it difficult to say which activities and costs are solely and directly caused by the organisational restructure rather than by wider changes that the Agency is making to staff rewards.

1.16 The costs of the staff voluntary early departure scheme are met partly by funds provided by HM Treasury. The Agency is meeting part of the costs through savings from its recruitment freeze and from underspends in directorates.

1.17 The Agency has counted reduced payroll costs (staff leaving under the scheme) as contributing towards the cost reduction target, rather than as net of the leaving packages, which are funded by previous cost reductions. The Agency has estimated payback periods for individual staff packages, but has not set a target or maximum period. Other government departments are also carrying out staff voluntary early departure schemes (**Figure 4**).

Figure 4
Staff voluntary early departures across government departments

Following the 2010 Spending Review, many government departments are making staff cost reductions. Many of the headcount reductions will take place under the revised Civil Service Compensation Scheme, which has capped compensation at 21 months' pay from December 2010.

HM Treasury has made ring-fenced, time-limited funding available to a number of government departments to fund the costs of staff packages under voluntary early departure schemes. This has enabled departments to move quickly to bring down staff headcounts and reduce payroll costs.

Source: National Audit Office analysis

Part Two

Securing the required cost reductions

2.1 The National Offender Management Service (the Agency) has taken a two-stage approach to delivering the annual £91 million reduction in headquarters' costs against a starting budget of £247 million and within the 2010 Spending Review. The Ministry of Justice's (the Ministry's) executive board requires the Agency's headquarters to make a £41 million cost reduction in 2011-12. To achieve this reduction, the Agency has focused on securing early reductions in the payroll bill through a staff voluntary early departure scheme and through restricting non-pay spending.

2.2 The Agency has had time to develop a more strategic approach to achieving the additional annual £50 million reduction in headquarters' costs required by 2014-15. It developed zero-based costing models for the new functional directorates with the aim of delivering its responsibilities through the leanest possible structure.[1] **Figure 5** overleaf shows the planned budgets and savings across the Spending Review period.

The Agency lacked early clarity on securing the £41 million cost reduction in 2011-12

2.3 The Agency reported that its priorities immediately following the announcement of the Spending Review 2010 and the Ministry's Business Plan 2011-15 included:

- planning and implementing the requirement to complete changes to senior management (the Agency's board and directors) by April 2011;
- rationalising the functions delivered by the Agency's headquarters and moving work into the new functional directorates by June 2011; and
- developing its competition strategy for offender services by July 2011.

2.4 As a result, the Agency considered that it would not have sufficient time or opportunity to deliver these priorities as well as develop and implement a zero-based costing model for directorates in 2011-12. The Agency sought to reduce costs in 2011-12 by reducing staff, managing vacancies, freezing recruitment across directorates, and increasing controls on non-pay spending.

1 'Zero-based costing' refers to the approach whereby the Agency mapped the activities required for each directorate to deliver its responsibilities, with directors then evaluating and prioritising these activities. Directors then identified the staffing and other resources necessary for delivering these activities, starting from scratch, and included only those essential for delivery, beginning with the highest priority activities.

Figure 5
The Agency's planned budgets and savings across the Spending Review

Source: National Audit Office analysis

2.5 In the first half of 2011-12, the Agency forecast a reduction of £8.4 million in payroll costs for the year. Following the first waves of the voluntary early staff departure scheme and data on vacancy management and the recruitment freeze, the Agency increased this forecast to a £21.4 million reduction in payroll costs. It then lowered its required cost reduction in non-pay spending to £19.6 million to meet the overall £41 million cost reduction requirement.

2.6 The Agency instructed each directorate to avoid filling staff vacancies from external recruitment. Its additional controls on spending included restricting the following areas: conference attendance, wider staff training and development, travel and subsistence, and specialist contractors.

2.7 The Agency has identified that spending restrictions in 2011-12 have caused directorates a number of difficulties and raised a number of risks. The Chief Executive Officer of the Agency chairs the organisation restructure board to ensure a high level of awareness of the business risks resulting from the restructure and to focus on how to manage these.

2.8 The Agency also acknowledges that early uncertainty on the timing and degree of payroll reductions from the staff voluntary early departure scheme, and the recruitment and spending restrictions, are causing '12 months of difficulties' for 2011-12. The Agency informed us it would have preferred to take a more strategic approach to reducing costs in 2011-12 but considered that it was not possible to do so in the first year. The Agency stated that it can take a more strategic and stronger approach to reducing costs from 2012-13, when most staff voluntary early departures end (**Figure 6**). It will also then have set zero-based budgets for the functional directorates.

Figure 6
The staff voluntary early departure scheme

The Agency's objectives for staff voluntary early departures

The Agency aimed to:

- minimise compulsory redundancies;
- gain early information on the contribution to the cost reduction target for 2011-12; and
- bring down payroll spending as early as possible in 2011-12.

The Agency was aware that any compulsory redundancies could only take place after it had placed its staff into new posts in the functional directorates and after a full consultation period on redundancy. This would have left staff on the Agency's payroll for longer than if they were able to apply to leave under the voluntary early departure scheme.

The Agency's planning and implementing of the voluntary early departure schemes

The Agency and the Ministry had carried out a voluntary early departure scheme in 2010. The Agency drew on data on staff take up in 2010 to model staff take up in 2011 and to estimate the payroll cost reductions this would achieve.

The Agency set principles for voluntary early departures:

- Maintain the skill base and performance.
- Contribute to reducing headcount and avoid backfill of posts by external recruitment.
- Avoid losing talented people who would be needed in the new directorates.

Source: National Audit Office analysis

Delivering cost reductions between 2012-13 and 2014-15

2.9 For 2012-13 onwards, the Agency has determined budgets for each functional directorate using a zero-based costing process. Under this process, directors used a costing model template to enter and build up details of each staff post required in their directorate. This was linked to pay sheets and grades and enabled the costs of each post and total staff costs in the directorate to be calculated automatically. The Agency required directors to submit an explanation to support their assessment of the staffing and budget required.

2.10 The Agency provided directors with support from an organisational development manager and instruction material to help them develop a zero-based budget. The support set out the design principles for directors to follow and offered guidance on making financial savings while ensuring their directorate continued to deliver its responsibilities.

2.11 The Agency put in place a budget-challenge process for directorates to identify any duplication between them and further opportunities to strip out costs. This process aimed to make sure that each directorate was budgeted to receive only those resources sufficient to deliver its priorities effectively.

Sustainability of the cost reductions

2.12 The Agency has included spending cuts on the NOMIS management information system in 2012-13 as a £24.6 million contribution towards cost reductions. It will also include a further £2.3 million towards its target when spending on other IT programmes ends in 2013-14.

2.13 The Ministry has launched a new operating model for IT. Under this, funding for IT projects is now supplied centrally by the Ministry itself and executive agencies bid for funding on a case-by-case basis. The Agency is considering submitting bids to the Ministry to fund further investment in IT after the Spending Review period. The Agency’s budget also contains funding for some minor investment in IT development.

Part Three

Identifying and managing restructure risks

3.1 The National Offender Management Service (the Agency) has developed a risk management strategy for the restructure programme. The organisation restructure team reviews and updates risks to the restructure programme monthly to produce a highlight report to the board.

3.2 The Agency's board receives and discusses monthly reports on each directorate. These include data on any under- or overspend against the directorate's budget. Through 2011-12, the Finance Directorate is providing highlight reports to the Agency's board on progress against the required £41 million reduction in budgets in 2011-12. This enables the board to identify and consider risks to achieving the required cost reduction.

3.3 The Agency identified that a key risk to the restructure was in maintaining the performance of public sector prisons. The risks included disruptions to the normal prison regime, such as prison disturbances, attempted or successful escapes, self-harm, suicide attempts and instances of violence.

3.4 The Agency moved promptly to introduce new risk management structures. It appointed a Director of Public Sector Prisons and deputy directors of custody early in the restructure process aimed at mitigating risks.

Managing threats to staff morale and performance

3.5 The Agency implemented a strategy to manage threats to staff morale and performance during the restructure (**Figure 7** overleaf). The strategy recognised that staff would be affected by:

- uncertainty over the future direction of the Agency;
- concerns over their job security, career development and promotion opportunities; and
- demotivation from pay freezes and by a wider sentiment among the general public against the Agency itself or the public sector more widely.

Figure 7
Key features of the Agency's strategy to maintain staff morale and performance

The strategy aimed to:

- improve staff recognition, reward and support;
- highlight high levels of staff skills and competencies;
- implement more effective staff recognition and talent management to retain good quality staff; and
- facilitate effective team working.

The strategy's recommendations were to:

- articulate a clear strategic direction for the Agency and a set of core values;
- improve links between the individual's and the Agency's objectives;
- ensure effective consultation during planning and implementing the restructure;
- provide clear and detailed key messages using appropriate language;
- tailor communications to different groups of staff; and
- enable feedback systems, dialogue, and question-and-answer sessions.

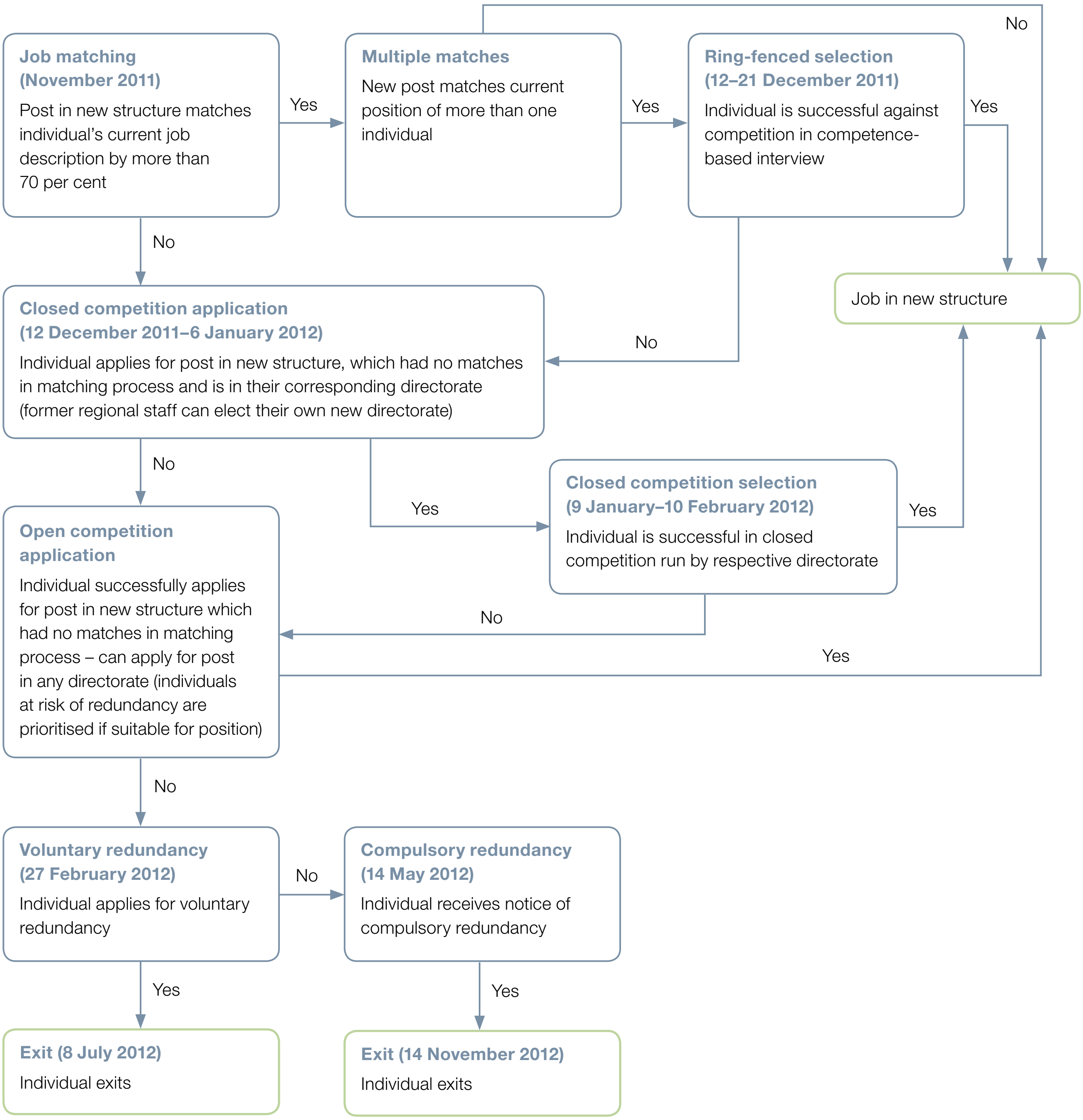
Source: National Audit Office analysis

3.6 The Agency uses its intranet, monthly narratives from the Agency board and head of group sessions with directors to cascade information for line managers to communicate to staff. The Agency aims to monitor the performance of staff members during the restructure, via their annual appraisal scores, to track any impacts of the restructure and job changes on individual and corporate performance. The Agency's communications to staff focused on providing comprehensive details and timings of the job-matching and appeals process for the new functional directorates (**Figure 8**).

3.7 The Agency has not previously been required to implement compulsory redundancies. The Agency stated that the processes for staff communications, for matching staff to new posts, and for implementing compulsory staff redundancies have involved significant cultural changes and have required managers to develop and apply considerable new skill sets.

3.8 The Agency ran 'navigating change' workshops for senior managers. These aimed to help managers develop the necessary skills to manage staff motivation, morale, and performance during periods of significant risk caused by organisational change and personal uncertainty and stress. The Agency also provided workshops for managers on 'leadership resilience' and 'emotional intelligence' aimed at strengthening their communication skills with staff.

Figure 8
Flowchart of the job-matching process for the new functional structure



NOTE

1 Appeals can be made against decision processes at the job-matching stage, the ring-fenced selection stage and the closed-competition selection stage.

Source: National Audit Office analysis

Evaluating the effectiveness of managing staff morale and motivation risks

3.9 To evaluate the effectiveness of the workshops and the impact of training on managers' confidence, the Agency gained feedback from managers following their participation in the training. The Agency also gained feedback from staff through the use of 'pulse surveys'. It designed the surveys to track staff understanding of the major aspects of the organisational restructure and how the restructure affects them, as well as to track their reactions to the changes. The Agency is evaluating this feedback to help address any deficiencies in training for managers and in communication flows to staff.

3.10 The Agency has analysed its communications strategy. It found that engaging with staff, and allowing them to influence the restructure through dialogue and feedback, were crucial to maintaining staff morale throughout the planning and implementation of the restructure programme.

3.11 The Agency's evaluation of staff feedback indicated that not all the messages from the Agency board were conveyed to staff by their senior managers, as required. However, the feedback forms indicated a reduction in complaints about poor sharing of Agency board messages. The most recent evaluation of the feedback data noted that 97 per cent of Agency staff felt that they were sufficiently informed about the organisational restructure.

Evaluating restructure outcomes

3.12 The Agency does not have any separate funding to evaluate how far the restructure achieves its objectives and has not developed an evaluation framework. The Agency reported that it did not want resources for evaluation of the restructure outcomes to be separately identified. The Agency is, however, considering its approach to an overall evaluation of the organisation restructure. It proposes to evaluate:

- the planning and design phase;
- the implementation phase, at the half way point through delivery; and
- final delivery – to assess the extent to which it has achieved the required savings and restructure objectives.

3.13 The Major Projects Authority and the quality assurance team within the Agency's Change Delivery Committee will review the planning, implementation and outcomes of the restructure programme.

Appendix One

Audit methodology

National Audit Office approach and methodology

1 In early 2011, the National Audit Office (NAO) prepared a guide entitled *Good practice principles: National Offender Management Service – Realising the benefits of restructure*. The guide drew on our body of published work examining departmental restructures and the recommendations made to departments. The guide set out the key elements for a robust and systematic approach to organisational restructure and principles to help realise the full intended benefits and to manage effectively the costs and risks.

2 The NAO shared the guide with the National Offender Management Service (the Agency) in March 2011. The guide was intended to highlight the main areas of interest to the NAO, and was not to be taken as formal advice to the Agency on its restructuring.

3 To carry out this examination, the NAO developed a matrix of audit questions based on the principles within the NAO guide. The NAO shared the audit questions with the Agency's restructure team in May 2011. The NAO conducted a two-stage examination to determine the emerging findings against these questions. This included a review of key Agency documentation on planning, implementing, and evaluating the restructure, in August and September 2011. The NAO team also carried out a short series of interviews with Agency staff holding key responsibilities for the restructure to conclude its findings on the main audit questions. These interviews took place in October 2011.

The management report

4 The management report forms the first delivery in a NAO examination of the Agency. The NAO will follow the management report with a value for money examination, planned for publication in Autumn 2012.

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Design & Production by
NAO Communications
DP Ref: 009825-001

Printed by Precision Printing

National Audit Office