National Audit Office

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COMPTROLLER AND
AUDITOR GENERAL

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Reorganising central government

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Reorganising central government

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Amyas Morse
Comptroller and
Auditor General

National Audit Office

15 March 2010

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 at a gross cost of just under £200 million a year.

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Contents

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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.

Part One

Introduction

1.1 There have been over 90 central government reorganisations from the start of the current Parliament in May 2005 up to June 2009, the end date we selected for our examination (Appendix 2).[1] By 'reorganisation', we mean the allocation and reallocation of functions and responsibilities within and among central government departments and their arm's length bodies. The reorganisations have varied greatly in scale and complexity, from transfers of units through to complex mergers and the creation of new departments. Concerns about the costs of reorganisation, and lack of transparency around them, have been expressed repeatedly.[2] The aim of this report is to shed light on costs while also examining the reasons for reorganisations, the benefits resulting from them and how they are managed.

1.2 We have taken a wide view of government reorganisations in this report, by including executive agencies and non-departmental public bodies within our scope as well as central government departments. This report generally avoids the expression 'machinery of government changes', which is generally taken to cover reorganisations affecting departments only. We refer collectively to executive agencies and non-departmental public bodies as arm's length bodies, recognising that they have different governance arrangements and operate within different accountability frameworks. We have included non-ministerial departments, such as the UK Statistics Authority, in this group because in many respects they have more in common with other arm's length bodies than with ministerial departments.[3]

1 Any cut-off point inevitably leads to exclusions. The most notable exclusion immediately before the period covered in our report is the merger of HM Customs & Excise with the Inland Revenue to create HM Revenue & Customs in April 2005.

2 For example, in *Machinery of Government Changes*, House of Commons Public Administration Select Committee, HC 672 2006-07, 15 June 2007, p. 9; *DIUS Departmental Report*, House of Commons Innovation, Universities, Science and Skills Committee, HC 51-I 2007-08, 20 January 2009, pp. 17-18; and *The creation of the Department for Business, Innovation and Skills and the Departmental Annual Report 2008-09*, House of Commons Business, Innovation and Skills Committee, HC 160 2008-09, 8 December 2009, p. 10.

3 While we have chosen to group non-ministerial departments with other arm's length bodies, responsibility for organising their functions rests with the Prime Minister.

Responsibilities for reorganisations

1.3 Responsibility for government reorganisation rests either with the Prime Minister or with other ministers depending on the nature of the change. In broad terms, the Prime Minister is responsible for changes involving the creation, merger or dissolution of departments while ministers in relevant departments are responsible for changes to the organisation of their arm's length bodies. Different parts of the Cabinet Office provide advice in the two different areas as part of wider duties rather than as a full time activity.

- The Prime Minister initiates changes to departments, including non-ministerial departments, as part of his or her responsibility, under the Ministerial Code, for the organisation of the executive and allocation of functions between ministers. The Prime Minister takes advice from the Cabinet Secretary who, in turn, is supported by the Economic and Domestic Affairs Secretariat in the Cabinet Office. A small team within the Secretariat is responsible for providing analysis on the likely costs and benefits of reorganisation, the risks to the delivery of benefits and the key challenges.
- Departmental ministers are responsible for reorganisations involving their arm's length bodies. A small team in the Propriety and Ethics Team in the Cabinet Office provides departments with advice on appropriate delivery models, governance arrangements and accountability. Some arm's length bodies have their existence and activities set in law, so changes can have much longer planning periods to enable legislation to be passed. Departments are expected to consult the Cabinet Office and spending teams in the Treasury when setting up new arm's length bodies.

1.4 Once a decision to reorganise has been taken, other areas of the Cabinet Office and the Treasury, including the Office of Government Commerce, can become involved in providing advice. The Treasury contributes to the assessment of cases for proposed changes to arm's length bodies, advises and occasionally arbitrates on revised budgets for departments. Every department, agency or non-departmental public body is subject to the Treasury's pay remit process, including any newly created body in these categories. Departments can ask the Office of Government Commerce to carry out independent Gateway Reviews of high-risk reorganisations: for example, the creation of the Serious Organised Crime Agency in 2006. The Civil Service Reward Group in the Cabinet Office provides advice on bringing staff with different terms and conditions together, including those covered by different pension schemes. No single part of government is formally responsible for monitoring or reporting on the implementation of reorganisations.

Part Two

Costs and benefits

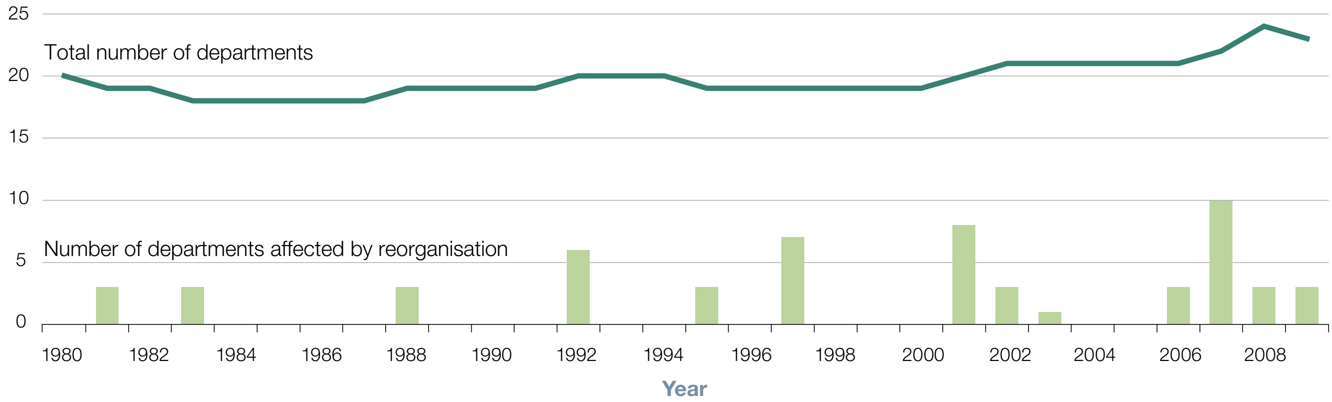
2.1 This part of the report examines trends in central government reorganisation, the reasons for reorganisation, and the costs and expected benefits.

Trends in reorganisation

2.2 Central government has always reorganised, even though its fundamental activities change little (**Figure 1**). The overall rate of change in ministerial departments has been similar to that in Australia and Canada,[4] but much higher than in the United States, where departments are formed through statute. Two new departments have been created in the United States since 1980, both of which still exist.[5] During this same period, 25 United Kingdom government departments have been created, 13 of which no longer exist. The departments that have come and gone during this period include the Department of Trade and Industry, which lasted 24 years until 2007, and the Departments for Business, Enterprise and Regulatory Reform and for Innovation, Universities and Skills, both of which lasted less than two years between 2007 and 2009.

Figure 1

There have been frequent reorganisations of ministerial departments over the last 30 years



Source: National Audit Office analysis of reorganisations of departments

4 *What drives machinery of government change? Australia, Canada and the United Kingdom, 1950-1997*, G. Davies, P. Weller, E. Craswell and S. Eggins (Public Administration, 77, 1, 1999, pp. 7-50).

5 The two departments are the Department of Veterans Affairs in 1989 and the Department of Homeland Security in 2002. United States federal executive departments are formed through statute. UK departments do not have a legal existence so the structure of departments has tended to reflect the allocation of functions to ministers. But this is not always the case, for example the Cabinet Office's public services reform unit currently reports to the Chief Secretary to the Treasury.

2.3 Changes to arm's length bodies are common. No analysis covers the full range of arm's length bodies[6] over an extended period but the total number of executive non-departmental public bodies, for example, has changed in every year since at least 1983. The overall trend has been a reduction in the number of non-departmental public bodies, often as a result of broader reviews.[7]

Reasons for reorganisation

2.4 Reasons for reorganising central government bodies vary. In 2007, the Public Administration Select Committee highlighted three main reasons for reorganising departments: to give greater weight to a particular policy; to increase administrative efficiency; and, to match responsibilities to capabilities.[8] In response, the government stated that reorganisation 'can be desirable for many reasons – for example, to adjust to changes in a government's responsibilities or priorities, or to ensure that a government's functions are being discharged effectively and efficiently' and to 'sharpen the focus and delivery capacity on particular issues'.[9]

2.5 In their responses to our survey, departments and arm's length bodies identified clear differences in the reasons for reorganisation. Two of our case examples illustrate this contrast (**Figure 2** overleaf).

- For departments, the main reasons identified for reorganisation related to policy, in particular to improve the joining-up of policy or signal a policy shift.[10]
- For arm's length bodies, the main reasons identified for reorganisation related to delivery and efficiency, particularly to improve delivery chains, enhance customer focus, remove duplication, and achieve economies of scale.

6 Non-ministerial departments, executive agencies, trading funds, executive and advisory non-departmental bodies, tribunals, and monitoring boards.

7 The Cabinet Office's annual report on *Public Bodies* provides information on the size of the non-departmental public body sector. This shows a decline in the number of executive non-departmental public bodies from 374, employing 117,500 staff, in 1990 to 198 in 2008, employing 93,000, with some of the decline attributable to devolution. Drivers to rationalisation include the Haskins (2003), Warner (2004) and Hampton (2005) reviews on rural delivery agencies, NHS arm's length bodies and regulators, respectively.

8 *Machinery of Government Changes*, House of Commons Public Administration Select Committee, HC 672 2006-07, 15 June 2007, pp. 6-7.

9 *Machinery of Government Changes: Government Response to the Committee's Seventh Report of Session 2006-07*, House of Commons Public Administration Select Committee, HC 90 2007-08, 21 November 2007, p. 1; and Cabinet Office website on Machinery of Government, http://www.cabinetoffice.gov.uk/reports/government_changes.aspx.

10 As also identified in *Shaping up: A Whitehall for the Future*, S. Parker, A. Paun, J. McClory and K. Blatchford, Institute for Government, 2010, pp. 79-81.

Figure 2
Reasons for reorganisation vary

Department of Energy and Climate Change

The Department of Energy and Climate Change brought together the Energy Group from the former 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. The statement released shortly after the department's creation explained that the change was to provide more joined-up policy across energy and climate change, and to send a clear message to consumers, energy consumers and other governments on the strategic importance of this issue.

The Pension, Disability and Carers Service

The Department for Work and Pensions merged two of its executive agencies: The Pension Service, responsible for paying benefits and entitlements to pensioners, and the Disability and Carers Service, responsible for providing practical support to disabled people including paying Disability Living Allowance and Carers Allowance. The logic behind the merger was to improve delivery to the public through providing a more joined-up service, as over 55 per cent of clients of the Disability and Carers Service were also clients of The Pension Service. Reductions to senior management, together with shared infrastructure and property, were also intended to generate efficiency savings.

Source: National Audit Office analysis of case examples

Costs of reorganisation

2.6 We estimate that the total gross cost of the 51 government reorganisations covered by this report has been over £780 million, which is an average of just over £15 million for each reorganisation and just under £200 million each year.[11] This figure does not take into account any financial savings and benefits delivered by the reorganisations. It is based on results from our cost estimation model, described in more detail in the methodology note on our website, and comprises two parts.

- The core of the estimate is £550 million in reorganisation costs reported by respondents to our survey, covering the 51 most significant reorganisations in the period covered by our report out of a total of more than 90 (Appendix 2). The figure comprises £410 million of costs to date and £140 million of expected future costs.
- An additional £230 million arises because many survey responses identified activities with cost impacts but excluded the costs themselves. Our cost estimation model derived amounts to cover the missing information by comparing against other responses for similar types of organisational change. Our model assigned every reorganisation to one of ten types of change so the estimation process could take account of different circumstances (Appendix 2).

11 Part of the cost of any reorganisation occurs in future years, so some of the total costs we have estimated will not fall in the four-year period covered by our analysis. For the same reason, some costs from earlier reorganisations will fall within our analysis period. These two effects offset each other so it is reasonable, given the broad nature of our estimate, to spread the £780 million over our analysis period to give an annual figure.

2.7 There are seven main reasons why we consider the figure of £780 million to be an under-estimate of the gross costs of reorganisation.

- Our estimate excludes the costs of 42 reorganisations. Most of these reorganisations are smaller than the 51 covered in our survey.[12]
- Other bodies, notably parent departments of arm's length bodies, incurred additional costs. We did not survey all of these other bodies but we asked respondents to indicate in broad terms, where relevant, the levels of these costs, as they were potentially substantial. More than a half of respondents told us that they were aware of other bodies incurring costs. A fifth of respondents estimated that, in one or more of the main elements of cost,[13] other organisations incurred costs comparable to, or greater than, their own.
- Public bodies find it difficult to separate reorganisation costs from other costs, often assigning ongoing reorganisation costs to normal business.
- The total cost we have estimated does not include underperformance caused by the time it takes a new organisation to get up to speed. Three-fifths of survey respondents reported short-term declines in staff morale and a third reported a short-term decline in staff productivity.
- Costs reported to us do not cover the full timespans of reorganisations. They exclude costs incurred during assessment and pre-implementation planning stages, and in passing legislation through Parliament. Later phases of some changes are yet to be implemented and included in cost estimates. For example, implementation of the Independent Safeguarding Authority has involved five phases, with the final one planned to take place in 2010, while operations integration at The Pension, Disability and Carers Service has not yet begun.
- There can be real costs, which are hard to quantify, from the loss of expertise, institutional memory and strategic focus.[14]
- The impact on third parties, such as stakeholders and customers, can be negative and may impose costs that are not included at all in our model.

2.8 Around 85 per cent of the total cost of the 51 reorganisations covered by our survey relates to arm's length bodies. The overall average cost is £15 million, with little difference in the averages for departments and arm's length bodies. The Treasury's requirement that reorganisations are not funded from additional money means these costs need to be met from the organisations' existing budgets.

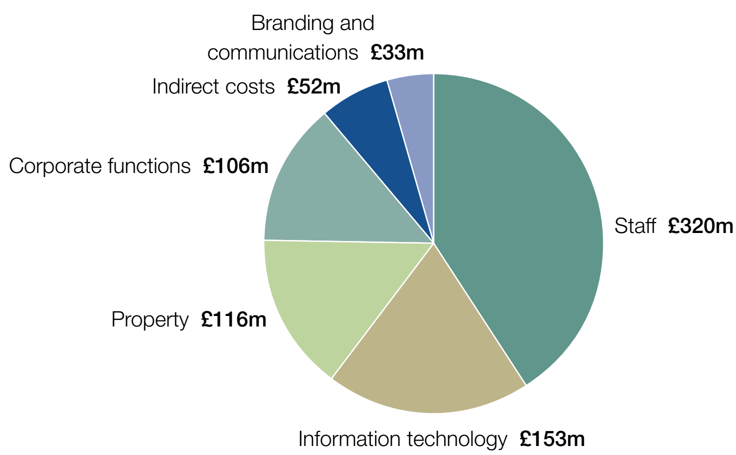
12 The methodology note on our website explains why the 42 reorganisations set out in Appendix 2 were not surveyed.
13 The main elements of cost are set out in Figure 3.
14 *Machinery of Government Changes*, House of Commons Public Administration Select Committee, HC 672, Session 2006-07, 15 June 2007, p. 10.

2.9 The cost of individual reorganisations varies greatly. The most complex reorganisations involved the merging of multiple organisations or units that have been removed from existing organisations, where we estimate that gross costs typically averaged over £25 million. The simplest reorganisations involved transfers of accountability from one department to another, such as the transfer of oversight of the Government Car and Despatch Agency from the Cabinet Office to the Department for Transport. In the case of departments, costs varied from relatively straightforward reorganisations, such as the formation of the Department for Business, Enterprise and Regulatory Reform, to complex mergers of units from existing departments to create new departments such as the Department of Energy and Climate Change.

2.10 The main element of cost (41 per cent) relates to staff (**Figure 3**), including 17 per cent on redundancy costs and 12 per cent on raising some staff salaries as part of pay harmonisation. Property and information technology costs have also been substantial, with payments for leases and information technology and service contracts, including termination payments, comprising 11 per cent of all costs. Consultancy costs across all categories account for seven per cent of the total.

Figure 3

Staff account for the largest element of cost in reorganisations covered by our survey



Source: National Audit Office and PricewaterhouseCoopers analysis of survey responses

2.11 The quality of information on reorganisation costs is poor for three main reasons.

- There is typically no reporting requirement before reorganisation, for example to prepare business cases or impact assessments. There are some exceptions among arm's length bodies, for example where the reorganisation imposes or reduces costs on businesses or third sector organisations, so a Regulatory Impact Assessment is required.
- Many public bodies have little time to set reorganisation budgets and the majority do not do so. Changes, particularly to departments, are often announced at short notice and implemented quickly. One finance director told us, 'it is not common practice for government departments to track the internal costs of machinery of government changes'. Two exceptions were the Department for Business, Enterprise and Regulatory Reform and the Department of Energy and Climate Change, which did separately identify transition costs in their financial accounting systems.
- There is no reporting requirement to disclose transition costs in financial statements or to undertake post-implementation reviews. The Treasury specifies a form of accounting that does not show transition costs for the creation and reorganisation of departments and agencies. This approach is different from reporting requirements for private sector mergers and acquisitions, which identify benefits and costs under processes regulated by The Panel on Takeovers and Mergers.[15] In addition, private sector mergers and acquisitions require formal accountability to boards, shareholders and the wider financial markets. Management teams must provide regular public updates on the delivery of savings and benefits resulting from a merger or acquisition.

Benefits of reorganisation

2.12 Government reorganisations cannot represent value for money unless they generate benefits beyond what would have been achieved under old arrangements, and with a value that exceeds associated costs. Our case examples and survey responses suggest a range of qualitative and quantifiable benefits being claimed for reorganisations, including higher customer and stakeholder satisfaction, financial savings from estates and back-office rationalisation, and improved policy focus (**Figure 4** overleaf). It can take two or more years to complete a significant reorganisation and to begin to see benefits, by which time some reorganisations covered by our report had already been overtaken by further change.

15 These are described in the paper on our website on *Synergy Reporting for Mergers and Acquisitions*, produced by PricewaterhouseCoopers.

Figure 4
Central government bodies report a range of benefits from reorganisations

Reorganisation	Reported benefits
Office of the Third Sector	Over three-quarters of stakeholders, comprising strategic partners and those responsible across government for third sector policy, told us that the Office of the Third Sector had been very successful or fairly successful in improving the influence of the third sector across government and the terms of engagement between government and the third sector. The Office of the Third Sector told us that the combination of its placement in the Cabinet Office and the assignment of a dedicated minister for third sector policy had substantially enhanced its influence across government.
The Pension, Disability and Carers Service	The Pension, Disability and Carers Service reported that it had achieved its objective to reduce corporate service costs by £5 million a year through lower staff numbers.
National Health Service arm's length bodies	The Department of Health had a clear quantified objective to achieve a cost-benefit ratio of 1:4 in rationalising its arm's length bodies from 2005 onwards and was on course to meet this target when we reported in 2008.[1]
NHS Business Services Authority	The NHS Business Services Authority reported that the merger of five organisations to create it enabled economies in back-office functions and the introduction of more automated processing and outsourcing of NHS Logistics.
Natural England	Following its creation through merger, Natural England reported that it was on course to reduce its estate from 60 buildings to 32 by the end of 2010-11, enabling 'cash and carbon efficiencies'.
FCO Services	After becoming a Trading Fund in April 2008, FCO Services reviewed and revised its service lines to deliver a more customer-focused service. It reported that its customer satisfaction levels improved from 74 per cent in 2006-07 to 80 per cent in 2008-09.

Source: National Audit Office past reporting and analysis of case examples and survey responses

NOTE

1 *Releasing resources to the frontline: the Department of Health's Review of its arm's length bodies*, National Audit Office, HC 237 2007-08, 25 January 2008, which found, on pages 8 and 13, that the Department spent £61 million over the review period on transition costs but was set to achieve savings of £255 million by 2008-09.

2.13 The value of expected benefits can be hard to measure, in particular where they are expected to occur in areas such as improved policy coordination as reported by the Department of Energy and Climate Change, and the Office of the Third Sector. Financial benefits were not expected in either of these reorganisations. No department we surveyed reported setting specific metrics to measure the delivery of the intended benefits of their reorganisations (**Figure 5**). One finance director told us that 'the actual cost and whether this represented good value for money was not a factor for consideration by the department because of the political driver behind the change'. Another told us, 'it was never made clear what the intended benefits were'.

2.14 Our 2006 report on the merger that created Ofcom recommended that, when a reorganisation is announced, decision makers should establish a set of relevant measurable benefits and collect baseline data to allow for measurement of delivery progress.[16] The report included a balanced scorecard tool to measure success for mergers and reorganisations, with a range of 'hard' and 'softer' metrics including staff and stakeholder opinion. Our survey found that three-quarters of arm's length bodies had developed metrics to track reorganisation benefits and three-fifths regularly reported progress on benefits metrics and performance indicators to the board.

Figure 5
Departments do not have adequate systems in place to manage the delivery of intended reorganisation benefits

		Percentage of reorganisations	
		Departments	**Arm's length bodies**
Metrics developed to measure benefits		0	73
Regular reporting to the board on benefits metrics and indicators		17	61
Assessment of when benefits will exceed costs	Already achieved	33	47
	In the future	33	50
	Not expected	33	3

Source: National Audit Office survey

NOTE
The percentages are based on responses from the six departments and 31 arm's length bodies which specified yes or no answers.

16 *The creation of Ofcom: Wider lessons for public sector mergers of regulatory agencies*, National Audit Office, HC 1175, 2005-06, 5 July 2006, recommendation 7.

Part Three

Project management

3.1 Achieving successful change to organisational structures is challenging whether in the public or private sector. There are reports claiming that less than half of mergers and acquisitions in the corporate sector benefit shareholders in the long run, while new government departments often become integrated only after several years.[17] Any reorganisation requires sound project management. This part of the report examines how central government organisations decide to reorganise and how they then plan, implement and evaluate reorganisations.

Deciding to reorganise

3.2 Good management of any project, including reorganisations, requires decisions to be based on: clear objectives; an understanding of likely costs, benefits, implementation risks and challenges; and, consideration of other options.[18] The Cabinet Office's guidance states that 'making existing mechanisms work should be a first priority', with structural change considered only if existing mechanisms cannot work, and that 'decisions should be taken on the basis of the best possible information'.[19] We found that reasons for government reorganisations are often expressed in very broad terms and rarely explain why the selected option is the best means of achieving a stated outcome (**Figure 6**).

3.3 Only a minority of arm's length bodies reported having investment appraisals of alternative options, including the option not to reorganise, and budgets in place at the time of announcing a decision to reorganise (**Figure 7**). For example, the business case for The Pension, Disability and Carers Service was developed a month after the restructuring decision was taken and included a financial justification for change that had not been mentioned in the earlier public announcement.

17 *Change the name on the door please: how to reduce the risk of machinery of government changes for citizens and employees*, Deloitte Public Sector, 2007; *Unlocking shareholder value: the keys to success*, KPMG Global Research Report, 1999; and, *From competitive advantage to corporate strategy*, M. Porter, Harvard Business Review, 65(3), 1987.

18 *The creation of Ofcom: Wider lessons for public sector mergers of regulatory agencies*, National Audit Office, HC 1175, 2005-06, 5 July 2006; and, *Making public sector mergers work: lessons learned*, P. Frumkin, IBM Center for the Business of Government, 2003.

19 *Machinery of government changes: Best practice handbook*, Cabinet Office, pp. 5 and 7, available at http://www.cabinetoffice.gov.uk/reports/government_changes.aspx.

Figure 6
Reasons for reorganisation reported in our case examples were expressed in very broad terms

Change	Reason
Creation of the Office of the Third Sector within the Cabinet Office	To provide 'an opportunity for government and third sector to work together more effectively and tackle the shared challenges our society faces' (Ministerial speech at Third Sector Review launch, 15 May 2006)
Creation of the Department for Innovation, Universities and Skills	To 'take responsibility from the Department of Trade and Industry for making Britain one of the best places in the world for science, research and innovation … (and) be responsible for the development, funding and performance of higher and further education' (Number10.gov.uk, 28 June 2007)
Creation of The Pension, Disability and Carers Service	'Already over 50 per cent of the customers of the Disability and Carers Service are also customers of The Pension Service … the launch of the new Agency will allow us to deliver better and more seamless products and services designed around our customers' needs, which is at the heart of our ambition for change' (Department for Work and Pensions Press Notice, 22 January 2008)
Creation of the Department of Energy and Climate Change	To 'bring together the government's work on three long-term challenges that face our country: ensuring that we have energy that is affordable, secure and sustainable; bringing about the transition to a low-carbon Britain; and achieving an international agreement on climate change at Copenhagen in December 2009' (Number10.gov.uk, 3 October 2008)
Creation of the Department for Business, Innovation and Skills	To 'create a single department committed to building Britain's future economic strengths ... it also puts the UK further education system and universities closer to the heart of government thinking about building now for the upturn' (Number10.gov.uk, 5 June 2009)

Source: National Audit Office summary of published material

Figure 7
Key project control mechanisms are often not in place when reorganisations to arm's length bodies are announced

At the time the change was announced	Percentage of reorganisations
There was an explanation of the benefits to be delivered	80
There was an investment appraisal of the different options for delivering these benefits	40
There was a budget for the costs of the change	43

Source: National Audit Office survey

NOTE

The percentages are based on the responses from 30 arm's length bodies which specified yes or no answers.

3.4 A small team in the Cabinet Office's Economic and Domestic Affairs Secretariat conducts analysis preceding reorganisations of departments. The Cabinet Office told us that it follows a structured approach, considering alternative ways of securing the desired change, likely costs and benefits of the change, and risks and key challenges. It did not provide us with evidence or examples, which it regarded as too sensitive. The Cabinet Office told us that the time allotted for analysis varies. Options have been under consideration in some cases for years but it can sometimes be as little as a few weeks or even days. Departments, generally, do not have budgets in place before implementing reorganisations.

Planning for reorganisation

3.5 Implementation plans and risk assessments are rarely in place when reorganisations of arm's length bodies are announced (**Figure 8**). This is even though reorganisation is typically announced after a planning period often lasting more than six months. Consultation with staff and other relevant parties is more common. Further planning time, averaging 16 months, is generally available between announcing the change and the date the reorganisation takes place. This time allows the lack of project plans and risk assessments at decision stage to be rectified, so both were in place in 60 per cent of cases at the start of implementation. The merger that formed The Pension, Disability and Carers Service, in April 2008, made good use of planning time. Implementation planning began in early 2008, and the team sought lessons from other mergers, commissioned a cultural audit of the agencies being merged, and consulted staff and key stakeholders. A detailed transition plan was finalised in May 2008, six weeks after the formal merger.

Figure 8
Implementation plans are rarely in place when reorganisations of arm's length bodies are announced

At or before the change was announced	Percentage of reorganisations
There was a project plan for implementation	27
There was an assessment of the risks faced in the implementation phase	33
Staff were consulted before the change was announced	77
Others in the delivery chain and/or service users were consulted	80

Source: National Audit Office survey

NOTE
The percentages are based on responses from 30 arm's length bodies which specified yes or no answers.

3.6 A lack of preparation time is an acute problem in changes involving new departments. The new body almost always comes into being on the day the change is announced, so senior civil servants have no time to plan before implementation. In contrast, the new Permanent Secretary at the Department for Innovation, Universities and Skills received several days notice in June 2007. This enabled people to be identified for key posts in the transition, finance and communications teams. It also allowed thought to be given to the launch and first few days of operation, including an outline implementation plan. The creation of the Ministry of Justice had a longer lead time, being announced by the Prime Minister on 29 March 2007, with an implementation date of 9 May 2007.[20]

3.7 Because of the time pressure, transition teams in new departments have to plan and implement change simultaneously, while also dealing with challenges for which they have had no time to prepare.

- The transition plan and risk register at the Department of Energy and Climate Change took three months to develop fully. During this time, the transition team had to recruit an interim board and top management tier, find offices near Whitehall for 1,000 staff, negotiate a budget settlement, and integrate staff from different departments with different working cultures and pay systems.
- The transition team at the Department for Innovation, Universities and Skills faced additional challenges of agreeing shared services arrangements, arranging contracts with suppliers, and setting up information technology systems.
- The transition team at the Department for Business, Innovation and Skills drew on first-hand experience from people involved in the recent changes establishing its predecessor departments, enabling an implementation plan to be developed within two days of the Department's launch.

3.8 The consequences of inadequate planning time can be costly. The Department for Innovation, Universities and Skills made overtime payments to contractors refurbishing new offices to a tight timescale, and incurred expenditure on interim staff and consultants for its new corporate centre. The Office of the Third Sector spent money on temporary information technology adjustments.

20 *The Creation of the Ministry of Justice*, House of Commons Constitutional Affairs Committee, HC 466, Sixth Report of Session 2006-07, 26 July 2007.

3.9 Due to time constraints resulting from what the organisation considered to be an ambitious launch date, planning and project control were particularly weak when setting up the Equality and Human Rights Commission at a cost of nearly £40 million.[21] In line with its expectations, the total cost included £11 million paid to 185 employees of its three legacy equality commissions under a voluntary early severance and an early retirement scheme run by the legacy bodies and offered to all their staff in July 2007. The scheme's intention was to provide the Commission with the flexibility to recruit new skills to support its wider remit, but the Commission had little influence over which former employees were accepted into it. Along with delays in recruiting new staff, this meant that the Commission found itself, on its launch in October 2007, more than a quarter under complement, with a shortfall of 140 staff and only 10 of its 25 director posts filled. As a result of these shortfalls, the Commission re-engaged as consultants, at a cost of £0.3 million, seven former employees of the legacy bodies who had received £0.6 million in early severance pay.

Implementing reorganisation

3.10 Adherence to all key elements of good practice is generally poor when implementing government reorganisations, particularly in departments (**Figure 9**). Failure to follow good practice can waste resources and damage staff and stakeholder morale and business delivery. More detailed evidence from our case examples shows a general awareness of good practice and a desire to follow it, frustrated by insufficient planning time that leaves transition teams dominated by 'fire-fighting'.

Learning lessons from reorganisation

3.11 Reorganisations of departments and arm's length bodies involve similar challenges from which lessons can be learned. Respondents to our survey identified information technology, new recruitment and aligning salaries as aspects of reorganisation with significant costs (**Figure 10** on page 24). There were also further challenges, associated with less clear and quantified costs, in integrating staff cultures and using significant amounts of senior management time. Our case examples showed that new departments faced many of these challenges, along with specific challenges in budgets and governance (**Figure 11** on page 25).

21 *Annual Report and Accounts 18 April 2006 – 31 March 2008*, Equality and Human Rights Commission, HC 632, 20 July 2009, C&AG report on the qualification of the Equality and Human Rights Commission's accounts; and, *Equality and Human Rights Commission,* House of Commons Committee of Public Accounts, HC 124, Fifteenth Report of Session 2009-10, 4 March 2010. The transition programme to set up the Commission began in September 2005, with the chair in place in November 2006 and the chief executive in March 2007.

Figure 9

The application of key good practice principles is variable when implementing reorganisations

Principle	Application
1 Ensure board support and leadership for change, underpinned by corporate governance and reporting arrangements.	More than four-fifths of bodies being reorganised had a project sponsor on the board and regular reporting of transition progress to the board.
2 Ensure the implementation team has detailed plans in place and the necessary skills in project and change management, bringing in external support where needed.	When implementation began, project plans and risk assessments were in place for a sixth of departments being reorganised and for 60 per cent of arm's length bodies. Around 90 per cent of arm's length bodies had a dedicated implementation team and sufficient specialist support, while 70 per cent of departments had a dedicated implementation team, but only a quarter considered that they had sufficient specialist support. Four-fifths of all reorganisations drew on expertise and advice from other parts of central government, including other departments. Three-fifths used external consultant expertise.
3 Communicate openly, honestly and regularly with staff and stakeholders, and seek to deliver early benefits to maintain/build their support.	Staff and stakeholders were consulted during the implementation phase in nearly all the reorganisations surveyed.
4 Establish solid financial and management reporting systems quickly to underpin the new organisation and support effective decision-making.	No department and just over a half of arm's length bodies had budgets for reorganisation costs in place when they began implementation. The consequences of not establishing sound financial controls are highlighted by the Revenue and Customs Prosecutions Office and the Equality and Human Rights Commission.[1]
5 Be clear about the outcomes sought and track benefits and key performance measures regularly.	None of the changes at department level had metrics for tracking benefits, whereas nearly three-quarters of arm's length body reorganisations did. There was regular reporting to the board on metrics and performance indicators in three-fifths of arm's length body reorganisations.
6 Recruit and appoint key senior executives early.	Most of our case examples had senior leadership in place reasonably quickly, although the Department of Energy and Climate Change did not have a head of human resources during its first three months.
7 Implement decisively and swiftly to limit uncertainty.	Staff and stakeholders of the Department of Energy and Climate Change stated that change at board and senior management level during the first year created uncertainty.
8 Phased implementation of major change can often be more effective than a 'big bang' approach.	A phased implementation approach at The Pension, Disability and Carers Service led to an early focus on finance and human resources services, with operational changes left until later.
9 Understand working cultures and develop a programme to integrate and break down old 'silos'.	Harmonising different working cultures was an area of high or moderate impact for more than a half of bodies undergoing reorganisation.
10 Ensure the 'nuts and bolts' work during transition and that normal business is maintained.	Reorganisation had a negative initial impact on staff morale and productivity in two-thirds of departments. It damaged morale in a half, and productivity in a quarter of arm's length bodies.

Source: Principles from *The creation of Ofcom: Wider lessons for public sector mergers of regulatory agencies,* National Audit Office, HC 1175, Session 2005-06, 5 July 2006; *Making public sector mergers work: lessons learned,* P. Frumkin, IBM Center for the Business of Government, 2003; and, *Change the name on the door please: how to reduce the risk of machinery of government changes for citizens and employees,* Deloitte Public Sector, 2007. Examples of application from National Audit Office survey and case examples.

NOTE

1 *Revenue and Customs Prosecutions Office*, House of Commons Committee of Public Accounts, HC 601, Session 2007-08, 11 November 2008; and *Annual Report and Accounts 18 April 2006 – 31 March 2008*, Equality and Human Rights Commission, HC 632, 20 July 2009.

3.12 Central government bodies commonly try to learn lessons from reorganisations but they do not share this learning widely. More than two-thirds of bodies in our survey undertook formal post-implementation reviews, but less than a quarter shared their reviews with other government organisations. Reviews were not published. The reviews we have seen, for example on the Ministry of Justice[22] and the Serious Organised Crime Agency, contain valuable, practical lessons applicable to other reorganisations.

3.13 The Cabinet Office has been working across the civil service recently in discussions with permanent secretaries, transition directors and others to draw lessons from recent reorganisations. The Cabinet Office has also developed its own internal guidance for taking on new policy units, based on lessons from the Office of the Third Sector.

Figure 10
Common challenges recurred across our survey of changes

Area of activity	Percentage of reorganisations reporting high or moderate cost impact
Senior management time spent in managing change	77
Harmonising different cultures	55
Changes to functions, structures and staff reporting lines	51
Information technology capital purchases	48
New recruitment	47
Website development	45
Harmonising different salary bands and terms and conditions	44
Requirement for temporary staff	44

Source: National Audit Office survey

NOTE
The percentages are based on 43 responses which specified clear answers.

22 The Ministry of Justice shared its review with the Economic and Domestic Affairs Secretariat at the Cabinet Office and the network of departments' change directors, and related its experiences at a conference on civil service transformation led by the Cabinet Office.

Figure 11
Our case examples illustrate some common reorganisation challenges

Budgets

Agreeing the size of the new organisations' budgets took between three to four months for the Department of Energy and Climate Change, the Department for Innovation, Universities and Skills, and the Office of the Third Sector.

Information technology

Delays in moving staff to Cabinet Office buildings required unexpected temporary changes to information technology for the Office of the Third Sector. Problems in migrating data resulted in file loss and harm to corporate memory.

Human resources and organisational culture

A perceived reduction in career development opportunities affected staff morale at the Office of the Third Sector, which is a unit of about 60 people. Some staff moved on loan because their pay grades did not exist in the Cabinet Office, subsequently returning to their original departments. The Department of Energy and Climate Change still operates two payroll systems because staff have remained on the payrolls provided by predecessor departments while the Department of Energy and Climate Change considers options for the provision of support to human resources.

Governance and corporate services

The Department for Innovation, Universities and Skills and the Department of Energy and Climate Change had to build corporate centres and new governance arrangements from scratch. It took the former ten months to establish an audit committee and the latter 16 months, although it did establish a temporary resource accounts sub-committee as a precursor within eight months. The Department for Innovation, Universities and Skills bought shared corporate services from one of the departments out of which it was formed, agreeing arrangements retrospectively at a level lower than originally envisaged.

Source: National Audit Office case examples

3.14 The Cabinet Office maintains guidance on central government reorganisations (**Figure 12** overleaf). Guidance on reorganising departments, which had been under review during the course of our work, was finalised in January 2010 and, unlike previous guidance, is now available on the Cabinet Office website.[23] Open publication follows the example of the Australian Public Service Commission, which has a good practice guide on *Implementing Machinery of Government Changes*, produced in 2007, freely available on the internet. For arm's length bodies, the Cabinet Office runs a network across government to support capacity building and share good practice, and it maintains a library of published and unpublished information. The Cabinet Office requests feedback on reorganisations, but this has not always been enforced systematically, so guidance is based only on some past reorganisations.

23 *Machinery of government changes: Best practice handbook*, Cabinet Office, available at http://www.cabinetoffice.gov.uk/reports/government_changes.aspx.

Figure 12

The Cabinet Office has published a range of guidance on reorganising central government

Economic and Domestic Affairs Secretariat guidance on changes to departments

The 35-page *Machinery of government changes: Best practice handbook*, produced in January 2010, covers: the decision-making process; announcing changes to Parliament; legal and constitutional advice; implementation; finance and resource transfers; transfer of records, information and knowledge; and, evaluation. It sets out suggested day one and week one tasks, and provides links to other information, including Treasury guidance on corporate governance and managing public money, and Cabinet Office guidance on staff transfers in the public sector.

Propriety and Ethics Team guidance on changes to arm's length bodies

A 27-page guide on *Executive Agencies*, last updated in 2006, covers: preparing for agency status; governance; launch; merger and transfer; and, dissolution.

A 140-page, 10-chapter guide on *Public Bodies*, last updated in 2006, covers: consideration of options and choosing the appropriate type of public body; policy and characteristics; legislative requirements and practical tasks in setting up; public body staff; financial management; accountability; reviewing; and, dissolving. The Team also publishes a separate 130-page guide on setting up, and managing, boards of public bodies.

Source: National Audit Office analysis

3.15 Our survey and case examples found that transition teams drew on earlier unpublished Cabinet Office guidance for reorganisations of departments but did not find it wholly satisfactory. One transition director had to 'track down' that earlier guidance, although revised guidance is now on the Cabinet Office website. Others found the guidance produced before January 2010 too long and theoretical and not sufficiently practical. Even the new guidance is not in a step-by-step form and does not include checklists, unlike Australian guidance, although it does set out likely key actions in the first week of a reorganisation. Practitioners would particularly welcome more external guidance and support covering:

- insights from other organisations that have been through similar changes themselves;
- information on people who have been through similar recent changes, so that practical advice could be drawn from them;
- human resources issues, especially on harmonising terms and conditions; and
- benchmarks on setting implementation budgets.

Appendix One

Methodology

Method	Use in the report
Analysis of press releases, Cabinet Office publications, departments' annual reports and internal consultation with National Audit Office client directors to identify central government reorganisations in the time frame of our study. Appendix 2 lists all these reorganisations.	This material underpins the whole report.
Survey covering the 51 of 93 reorganisations in our time frame. For each reorganisation, the survey went to the single body most affected but asked questions about impacts on other bodies. The 42 reorganisations not covered were mostly smaller.	Financial and non-financial analyses in Parts 2 and 3.
Case examples of five reorganisations (two being the creation and dissolution respectively of the Department for Innovation, Universities and Skills).	Descriptive material presented in Parts 2 and 3.
Advice and analysis from PricewaterhouseCoopers in interpreting financial information presented in survey returns and using it to estimate total reorganisation costs. The details of the cost estimation model, based on assigning one of ten change types to each reorganisation, are explained on our website. Appendix 2 indicates the change type assigned to each reorganisation.	Financial estimates presented in Part 2.
Interviews with staff at the Cabinet Office and Treasury involved in advising on reorganisations.	Contextual material, particularly in Parts 1 and 3.
Analysis of published and unpublished material on the reasons for specific reorganisations, the planning around them and assessment of lessons learned.	Descriptive material throughout the report.

Appendix Two

Central government reorganisations from May 2005 to June 2009

1 Surveyed by National Audit Office

Name of organisation	Organisation type[1]	Date of change	Type of change[2]
Reorganisations of departments (8)			
Department for Business, Innovation and Skills	Department	Jun 2009	Merger
Department of Energy and Climate Change	Department	Oct 2008	Multiple carve out and merger
Government Equalities Office	Department	Oct 2007	Carve out
Department for Business, Enterprise and Regulatory Reform	Department	Jun 2007	Replacement
Department for Children, Schools and Families	Department	Jun 2007	Multiple carve out and merger
Department for Innovation, Universities and Skills	Department	Jun 2007	Carve out
Ministry of Justice	Department	May 2007	Multiple carve out and merger
Department for Communities and Local Government	Department	May 2006	Multiple carve out and merger
Transfers of units across departments (4)			
Directgov	Unit	Apr 2008	Transfer
UK Trade & Investment Defence & Security Organisation	Non-ministerial department	Jul 2007	Transfer
Office of the Third Sector	Unit	May 2006	Multiple transfer
Government Car and Despatch Agency	Executive Agency	Nov 2005	Transfer of accountability
Reorganisations of arm's length bodies (39)			
UK Anti Doping	Executive NDPB	Jun 2009	Carve out
Care Quality Commission	Executive NDPB	Apr 2009	Multiple merger
Food and Environment Research Agency	Executive Agency	Apr 2009	Multiple carve out and merger
Valuation Office Agency (enlarged to include Rent Service)	Executive Agency	Apr 2009	Merger and absorption
Creativity, Culture and Education	Independent charity outside of government	Mar 2009	Carve out
Homes and Communities Agency	Executive NDPB	Dec 2008	Multiple carve out and merger
Tenant Services Authority	Executive NDPB	Dec 2008	Merger and absorption

Name of organisation	Organisation type[1]	Date of change	Type of change[2]
Local Better Regulation Office	Executive NDPB	Oct 2008	Creation
National Fraud Authority	Executive Agency	Oct 2008	Creation
Consumer Focus	Executive NDPB	Aug 2008	Multiple merger
Child Maintenance and Enforcement Commission	Crown Executive NDPB	Jul 2008	Replacement
National Offender Management Service	Executive Agency	Jul 2008	Multiple carve out and merger
Agricultural and Horticultural Development Board	Executive NDPB	Apr 2008	Multiple merger
Foreign and Commonwealth Office Services (set up as executive agency in Apr 2006)	Trading Fund	Apr 2008	Replacement
Identity and Passport Service (incorporation of the General Register Office)	Executive NDPB	Apr 2008	Merger and absorption
The Pension, Disability and Carers Service	Executive Agency	Apr 2008	Merger
UK Border Agency	Executive Agency	Apr 2008	Multiple carve out and merger
UK Commission for Employment and Skills	Executive NDPB	Apr 2008	Merger
UK Statistics Authority	Non-ministerial department	Apr 2008	Carve out
Independent Safeguarding Authority	Executive NDPB	Jan 2008	Creation
Equality and Human Rights Commission[3]	Executive NDPB	Oct 2007	Multiple merger
Personal Accounts Delivery Authority	Executive NDPB	Jul 2007	Creation
Technology Strategy Board	Executive NDPB	Jul 2007	Carve out
Animal Health	Executive Agency	Apr 2007	Multiple merger
National Policing Improvement Agency	Executive NDPB	Apr 2007	Multiple merger
Office for Standards in Education, Children's Services and Skills (Ofsted)	Non-ministerial department	Apr 2007	Multiple carve out and merger
Science and Technology Facilities Council	Executive NDPB	Apr 2007	Multiple merger
Big Lottery Fund	Executive NDPB	Dec 2006	Merger and absorption
Commission for Rural Communities	Executive NDPB	Oct 2006	Carve out

1 Surveyed by National Audit Office continued

Name of organisation	Organisation type[1]	Date of change	Type of change[2]
National Archives (absorption of Office of Public Sector Information)	Non-ministerial department	Oct 2006	Merger and absorption
Natural England	Executive NDPB	Oct 2006	Multiple carve out and merger
Capacity Builders	Executive NDPB	Apr 2006	Carve out
Office of Rail Regulation (absorption of Railway Inspectorate from the Health and Safety Executive)	Non-ministerial department	Apr 2006	Multiple carve out and merger
Serious Organised Crime Agency	Executive NDPB	Apr 2006	Multiple carve out and merger
Tribunals Service	Executive Agency	Apr 2006	Multiple carve out and merger
NHS Blood and Transplant	Special Health Authority	Oct 2005	Merger
NHS Business Services Authority	Special Health Authority	Oct 2005	Multiple merger
NHS Institute for Innovation and Improvement	Special Health Authority	Jul 2005	Multiple merger
Strategic Rail Authority (absorption into the Department for Transport)[3]	Executive NDPB	From Jun 2005	Carve up and disband

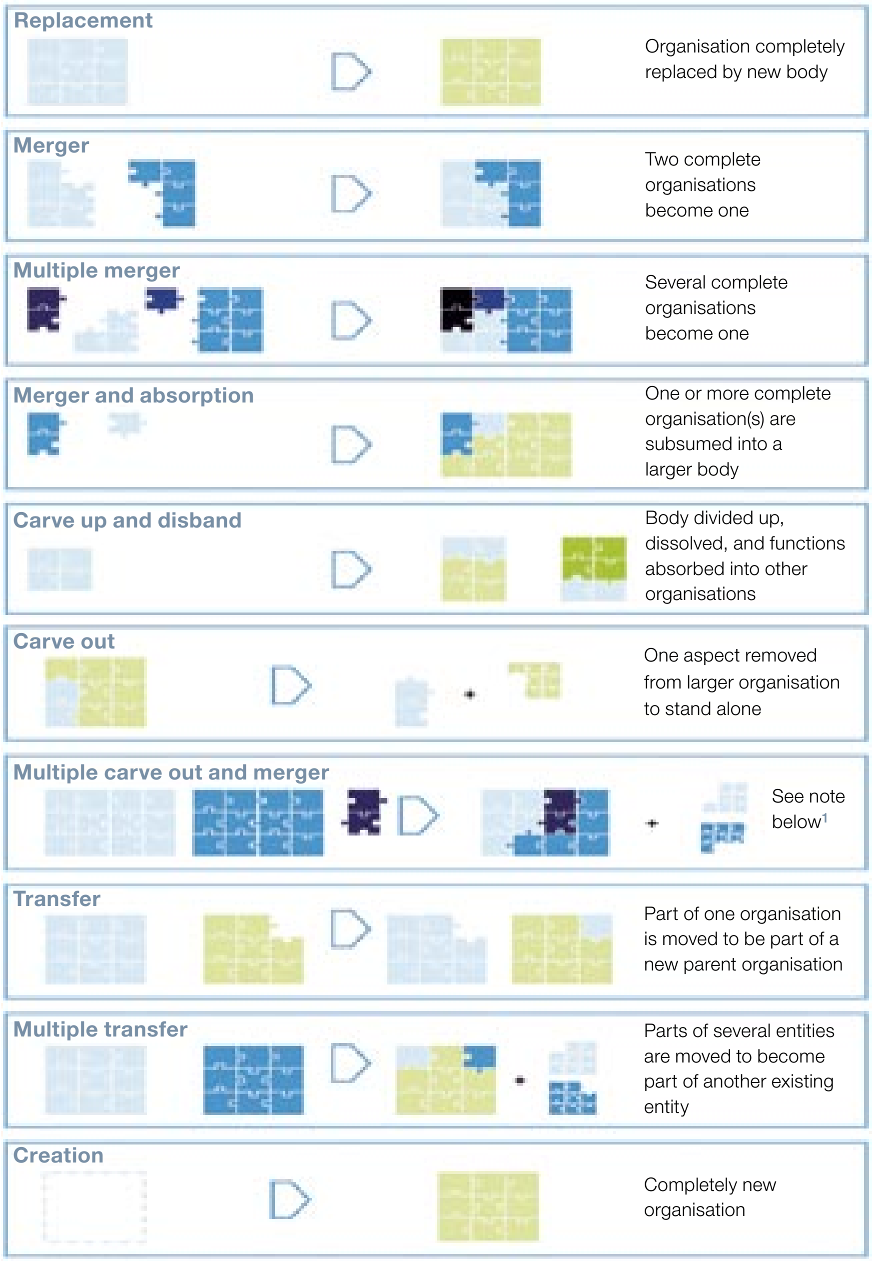
NOTES

1 Executive NDPB is an abbreviation for executive non-departmental public body.

2 From its review of the survey responses and its experience of mergers and acquisitions, PricewaterhouseCoopers developed ten typologies for use in its cost estimation model (see diagram on opposite page).

3 In the cases of the Strategic Rail Authority and the Equality and Human Rights Commission, we drew upon cost information in their annual reports and accounts.

Reorganisation typologies used in the cost estimation model



NOTE

1 Parts of several organisations are removed (and in some cases whole bodies also) and combined into a new standalone organisation.

2 Not surveyed

Reorganisations of departments (2)

2007	Deputy Prime Minister's Office (disbanded)
2006	Deputy Prime Minister's Office (carve out from Office of the Deputy Prime Minister)

Transfers of units across departments (7)

2008	e-Delivery team (transferred from Cabinet Office to Department for Work and Pensions)
2007	Better Regulation Executive (transferred from Cabinet Office to the Department for Business, Enterprise and Regulatory Reform)
	Directgov (transferred from Cabinet Office to the Central Office of Information – our survey covers its April 2008 transfer to the Department for Work and Pensions)
	Prime Minister's Delivery Unit (transferred from Cabinet Office to HM Treasury)
2006	Equalities Review Team (transferred from Cabinet Office to Department for Communities and Local Government)
	Social Exclusion Taskforce (replaced Social Exclusion Unit)
2005	Design Council (transferred from sole responsibility of Department of Trade and Industry to joint responsibility with Department for Culture, Media and Sport)

Reorganisations of arm's length bodies (33)

2009	National Institute of Biological Standards and Control (merged into the UK Health Protection Agency)
	Risk and Regulation Advisory Council (disbanded)
2008	Assets Recovery Agency (disbanded/absorbed into Serious Organised Crime Agency)
	Capital for Enterprise Ltd
	Commission for Patient and Public Involvement (disbanded)
	Committee on Climate Change
	Crown Agents Holdings and Realisation Board (disbanded with assets and liabilities transferred to Department for International Development)
	Defence Support Group
	Health and Safety Executive (merged with Health and Safety Commission)
	Pesticides Safety Directorate (absorbed into Health and Safety Executive)
	UK Financial Investments Ltd.

2007	Adult Learning Inspectorate (disbanded/absorbed into Ofsted)
	Border and Immigration Agency (replaced the Home Office's Immigration and Nationality Directorate)
	Compact for the Commission
	Defence Equipment and Support (from merger of two organisations)
	National School of Government (became a non-ministerial department)
	NHS Direct (became an NHS Trust)
	Office of the Public Guardian (replaced the Public Guardianship Office)
	Privy Council Office (became independent part of Ministry of Justice)
	Renewable Fuels Agency
	Service Personnel and Veterans Agency (from merger)
2006	Better Regulation Commission (replaced Better Regulation Taskforce)
	Identity and Passport Service (replaced UK Passport Service)
	Olympic Delivery Authority
	Quality Improvement Agency for Lifelong Learning (later renamed the Learning and Skills Improvement Service)
	Wine Standards Board (disbanded/absorbed into Food Standards Agency)
	National Employment Panel Ltd. (renamed Working Ventures UK in 2007)
2005	Gambling Commission
	NHS Estates (disbanded/absorbed into Department of Health)
	Passenger Focus (replaced Rail Passengers Council)
	Pension Protection Fund
	The Pensions Regulator
	School Food Trust (set up as an executive non-departmental public body, it registered as a charity in 2007)

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