

*New shapes and sizes*  
Reshaping public-sector  
organisations for an age  
of austerity



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## **About this research**

This research draws on a paper that was prepared by Deloitte LLP for a Public Sector People Managers' Association conference in April 2009.

In developing this paper, Deloitte LLP has combined perspectives from a number of public-sector clients with its own expertise and experience of reshaping public-sector organisations.

This paper is part of the 'Agility in an age of austerity' series, which explores how public-sector organisations can be agile in the face of significant pressures on public finances. Other publications in the series will cover 'lean' techniques, leadership and 'localism'.

Those with an interest in public-sector management may also want to see the 'Turning the tide' report, which can be downloaded at: [www.deloitte.co.uk/turningthetide](http://www.deloitte.co.uk/turningthetide)

# Executive summary

The recent economic downturn and the Government bail-out of financial institutions underline the unprecedented challenges facing public-sector finances. Regardless of the result of the next general election, pressure on public-sector organisations and their resources will only increase.<sup>1</sup> Those in local government, education and health are already reducing headcount and reshaping organisations in response to tighter budgets. Various initiatives are also being developed such as 'localism' and Total Place.<sup>2</sup> Reduced budgets are extremely likely across the public sector for the next three to five years – but without any significant reduction in delivery expectations.

Public-sector organisations have a choice about how they react to these challenges. The temptation will be to act defensively, cutting costs by shedding marginal headcount or applying a uniform percentage reduction, which may result in the loss of core skills and poorer performance. Using a human analogy, getting healthy is not just about losing weight; it is also about building strength, improving flexibility and boosting confidence. Public-sector managers should think more strategically, to address proactively issues around the size and shape of their organisations, their ways of working and priorities.

More broadly, the shape of public-sector structures needs to be reviewed in each policy area. The role of many government organisations is changing, from delivering public services directly, to commissioning others to deliver on their behalf. There is also pressure to reduce the overlap and inefficiency of multiple agencies and non-departmental public bodies (NDPBs) operating in the same delivery chains. In some cases, this implies the abolition or merger of organisations; in others, outsourcing to the private sector.

In this context, public-sector leaders will face significant pressures on:

- Funding, with many already working to indicative budget reductions of five to ten per cent each year.
- Organisational strategy, particularly leading to increased local delivery, and mergers and restructuring.
- The capability of their staff to respond to such changes.

This paper explores some of the new realities of reshaping organisations in an age of austerity.

The emerging reality involves a greater radicalism both in intended organisational outcomes and the leadership required to get there. Numerous examples of reshaping have already succeeded in local government, and there are others in central government departments. As an illustration, four public-sector success stories are highlighted in the final section.

The UK public sector is facing major change. Its leaders can choose merely to react to reduced funding and imposed restructuring, or identify proactively how their organisations can adapt their size and shape in order to deliver more – with less.

# Doing nothing is not an option

The recent economic downturn has been described as a record recession and has arguably created the harshest conditions since the end of the Second World War.<sup>3</sup> According to official figures to the end of October 2009, UK public-sector net debt was £825 billion, equivalent to 59 per cent of Gross Domestic Product (GDP); excluding financial sector interventions, the total was £683 billion or 49 per cent.<sup>4</sup> The National Institute of Economic and Social Research, a leading think tank, has warned of government debt potentially soaring to 93 per cent of GDP by 2015.<sup>5</sup> Commentators agree that these economic conditions will drastically affect public-sector operations, policies and finances.<sup>6</sup> There is political consensus about the need to rebalance public finances – the debate is focused on the timing of possible action.

Capital spending has already been trimmed drastically.<sup>7</sup> Indicative budgets currently being issued to frontline managers in health, education and local government imply reductions, sometimes expressed as 5 per cent year on year, other times as 20 per cent over three years. Local government has rapidly increased the pace of headcount reduction. A recent survey of local authorities in England and Wales showed that 59 per cent of respondents had made staff reductions in the last six months, and 60 per cent were planning to cut their workforce in the next year.<sup>8</sup> Estimates based on a sample survey of local authorities suggest that 14,000 council jobs could be threatened over a three-year period.<sup>9</sup> There is also pressure to reduce bureaucracy which many see as contributing to inefficiency.<sup>10</sup>

In response to the credit crunch, private-sector organisations slashed spending and headcount aggressively in late 2008 and early 2009. For most of them the focus on retrenchment and reshaping is over. Paradoxically, the recession is still leading to customer service improvements, as companies fight harder to retain their customers by deploying new technology and service improvements in response to intensifying competition. For the public sector, the delivery challenge remains. The need to deliver high quality programmes, on time and on budget, will become ever more critical. Despite funding reductions – and perhaps because of a decade of tax increases – citizens still expect the quality of public services to improve.

## The need to deliver more with less

The net result is that central and local government leaders will need to achieve better quality and more effective public services with the dramatically tighter budgets now emerging. To succeed, commercial skills in the public sector will be crucial in judging priorities, managing transitions and assessing value for money, as recently outlined by the National Audit Office.<sup>11</sup>

A key pillar of success will be critically reviewing and reshaping traditional service delivery models and organisational structures. Until now, many local and central government cost reduction initiatives have relied on delivering marginal savings, for example by not filling vacancies or reducing the seniority and number of hours when filling roles. While these marginal savings will continue to be important, they will not suffice given the scale of expected funding reductions. Typically, those seeking more significant savings have often resorted to uniform percentage cuts with minimal prioritisation. Such an approach risks delivery failure and may miss the opportunity for more radical reshaping.

For some, reshaping might mean changing the size of the organisation or individual functions. Leaders will need to ask: Do we have the right number of people in this organisation? In the current financial climate, it is unlikely that minor changes to staffing levels will be adequate. More radical changes will probably be needed, and the more significant the change in size, the more likely that shape will also need to be changed.

In effect, leaders need to ask:

- Have we got the right number of people, in the right place, doing the right things in this organisation?
- Are we delivering the right services – do we need to deliver them at all?
- Is this organisation in the right shape to deliver services in the different ways that will be required, given the expected funding cuts?

# Myths and new realities

Even during the painful economic restructuring of the 1980s, the public sector did not reduce operational spending – it privatised assets, reduced capital spending and slowed the growth of operational spending. This pattern underpins myths that persist today. The recent financial crisis, and the innovation already emerging in some parts of the public sector, is shaping a new reality, as outlined in Figure 1.

The emerging realities faced by the public sector underline the urgent need for change as outlined below.

## Changes needed in structure

The challenges of effective government can be structural, for example public agencies and NDPBs are often targeted for cuts. In some cases, an assessment is needed based on efficiency and effectiveness. A recent report on education quangos asserts that schools are being stifled under central control and bureaucracy which is undermining initiative.<sup>12</sup> It notes that the spending of such organisations has increased in real terms by 10 to 15 per cent over the last few years with no evidence that their performance has matched their growing budgets. The report identifies a number of organisations that it recommends could be abolished or moved out of government control. It estimates that net savings of £633 million a year could be achieved by adopting these reforms, although these savings might not be achieved without fundamental changes to government policy and delivery mechanisms. As an example, the recent failure of the capital programme to rebuild and refurbish England's further education colleges suggests that the multitude of agencies in the United Kingdom may lack financial management competencies and sufficient overview of their customers.<sup>13</sup>

There are also questions about remit: for example, do the Environment Agency and Natural England both need to issue environment reports for England? In other cases, it is a question of public versus private funding: does government need to fund the Meteorological Office and its climate change work? Does government need to fund the work of multiple energy savings organisations, especially when the power utilities are the natural owners of the business? Such questions are likely to come to the fore as budgets become further stretched.

Figure 1: The myths and emerging realities of reshaping public-sector organisations

Myths	Emerging realities
Funding cuts always damage service quality – there is a direct trade-off between quality and cost.	<ul style="list-style-type: none"> <li>New delivery mechanisms can deliver the same or better service quality at lower cost.</li> <li>Citizen self-service can be the best option.</li> </ul>
The public sector never sheds people.	<ul style="list-style-type: none"> <li>Local government and some central government departments are already reducing headcount through redundancies, and more will follow over the next 18 months.</li> </ul>
Public-sector workers are underpaid.	<ul style="list-style-type: none"> <li>Since 1999, public-sector pay has been catching up with private-sector equivalents, although there is significant sector and geographic variation.</li> </ul>
Statutory services are immune to funding cuts.	<ul style="list-style-type: none"> <li>Budgets must be revised in all areas.</li> <li>The same quality core services can be delivered at lower cost if the delivery model is adapted.</li> <li>Reducing universal or preventative services is likely to create massive pressure on remedial services later.</li> </ul>
Public-sector organisations are too bureaucratic to be agile.	<ul style="list-style-type: none"> <li>The yield on public spending can be increased by merging organisations and eliminating layers.</li> <li>Local authorities are sharing services.</li> <li>Initiatives such as 'localism' and Total Place are developing new delivery and back-office models.</li> <li>In some cases, local authority and Primary Care Trust leadership have been combined in one role to improve coordination, agility and cost.</li> </ul>
The public sector cannot stop or close whole activities.	<ul style="list-style-type: none"> <li>It is possible for public-sector organisations to be shut down using existing mechanisms.</li> </ul>

Source: Deloitte LLP, 2009

## Changes needed in resourcing

As well as structural reform, government will have to reconsider the amount of resources it invests in delivering public services. Historically, the public sector has tended to apply a uniform percentage reduction across all budgets, which can damage service delivery and neglect priorities. This time around, leaders agree that protecting service delivery is crucial and this requires a radical re-examination of delivery models. One initiative led by the Treasury is Total Place, which examines the core services delivered to a particular location and considers how improvements can be made across government boundaries.<sup>14</sup> In this context, resource allocations will come under increasing scrutiny; for example, children's services professionals are questioning why the Sure Start and Children's Centre budgets are ring-fenced to prevent re-evaluation, meaning that local authorities cannot fully optimise total local spending.

Other authorities are considering more radical service delivery changes. Barnet Council is considering providing premium services only to residents who are willing to pay extra.<sup>15</sup> Dubbed 'easyCouncil', householders who are seeking planning consent will be able to pay extra to jump the queue, just as budget airline customers can pay more to board the plane first. Residents will also be able to pay more for services such as extra rubbish collections, while recipients of adult social care will be able to choose to spend a limited budget on respite care or on a cleaner. The initiative, known officially as the Future Shape proposals, is described as part of the Council's relentless drive for efficiency by bringing private-sector flexibility and choice to the provision of public services. Mike Freer, the Council Leader, said: "If the next round of public-sector reform is just about cutting costs we will have failed. Public services in Barnet need to reflect the changes in customer care that have become standard across the private sector".<sup>16</sup>

### Changes needed in ways of working

Agility in delivering public policy has been on the government agenda for over 20 years, as outlined in Figure 2. Beginning with the Next Steps agencies, there has been a series of reforms aimed at delivering greater flexibility and improved performance. The traditional central government departmental structures were changed during the early initiatives with the creation of new agencies and project teams; the most recent evolution focuses on reshaping processes and encouraging new behaviours to increase organisational agility.

Despite this recent focus on delivery, central government's record in this area has been mixed according to the Institute for Government.<sup>17</sup> Delivery against cross-government Public Service Agreements (PSAs), where major policy priorities require a range of departments to collaborate in delivering outcomes, has been particularly poor. A major problem is that participating departments struggle to build the trust necessary to work effectively across departmental boundaries. Although many civil servants comment that joint working is better than it ever has been, there are still anecdotal examples to the contrary, where data and analyses are concealed or decisions are taken without consultation.

Within the largest cross-government PSAs, only a few programmes will usually be actively managed across central government departments. The vast majority will be departmentally-led with reporting to the Senior Responsible Officer (SRO) required only if the project deviates beyond agreed margins. Nevertheless, the few programmes coordinated across Whitehall will typically account for a disproportionate share of the impact and complexity of a PSA, as outlined in Figure 3.

Figure 2: Evolution of organisational agility in the UK public sector

	From 1990	From 1998	From 2002	From 2004	From 2007
<b>Concept</b>	Create whole organisation around cluster of operations or customers	Create dedicated project structures within organisation	Add cross-cutting themes and services to give coherence to decentralised structure	Embed operations, policy and process, and customer structures	Organise around activity, adding flexible resourcing and career home management
<b>Public-sector examples</b>	Ministry of Defence's 200 executive agencies; Department for Work and Pension's business units	Defence Procurement Agency's 120 Integrated Project Teams	Programme of Financial Services Authority partners	Her Majesty's Revenue & Customs (HMRC)	The RENEW programme in the Department for the Environment, Food and Rural Affairs (Defra)
<b>Private-sector equivalents</b>	Manufacturing in: <ul style="list-style-type: none"> <li>• ICI</li> <li>• Shell</li> </ul>	Asset focus in: <ul style="list-style-type: none"> <li>• BP</li> <li>• BG Group</li> </ul>	Investment banks	Development, production and marketing of consumer products	Leading professional services firms

Source: Deloitte LLP, 2009

The challenge for ministers and central government officials is to work effectively across Whitehall. In addition, the cross-cutting nature of PSAs creates a huge reliance on delivering through private-sector activity, which is beyond government control but within its influence. Hence, effective delivery involves:

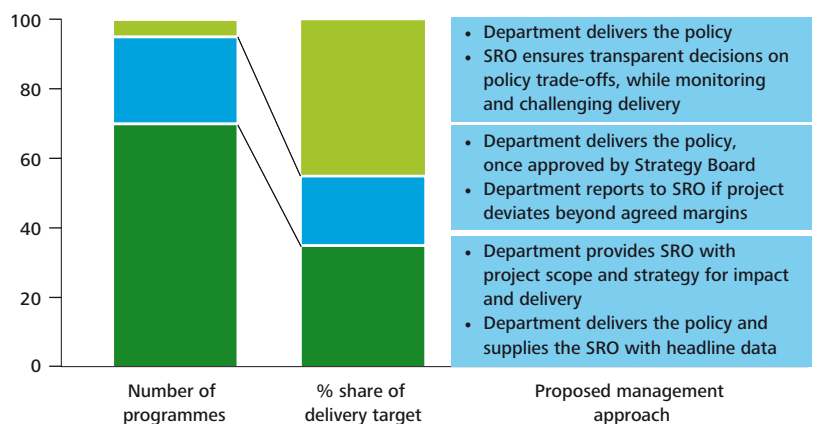
- taking a holistic view of each policy problem
- focusing on the few critical priorities rather than the undifferentiated mass of departmental initiatives
- ensuring that trade-offs between conflicting policies are made transparently
- providing independent programme management support.

PSAs entail complex delivery chains, engaging numerous public servants from different agencies. Many seek to attract industry investment and influence citizen behaviour. This raises the stakes in policy execution. It requires organisations that are appropriately shaped to guide the implementation of policy through a diverse and decentralised delivery network.

Influencing the performance of such complex delivery chains arguably requires new processes and behaviours rather than new structures or expensive new systems. In this context, delivery would benefit from reshaping to:

- cull many overlapping, sub-scale initiatives and separate targets
- increase understanding of the effectiveness of alternative policy instruments
- develop a holistic view of the full range of planned interventions
- provide more continuity in the policy and investment climate where private-sector investment is needed to deliver key outcomes.

**Figure 3: The typical balance of impact and accountability within PSAs**



Source: Deloitte LLP, 2009

# Shape matters as much as size

Organisations have a choice about how they react to the increasing pressure on public finances. The temptation is to act defensively, employing a knee-jerk response to cost cutting, which risks losing core skills and impeding performance. However, public-sector managers need to think strategically, by proactively assessing the size and shape of their organisations and anticipating challenges.

## What exactly is meant by size and shape?

Using a human analogy, getting healthy is not just about losing weight; it is also about building strength, improving flexibility and boosting confidence. Too often, organisations focus on reducing their size, assuming that if staff numbers are cut, everything else will take care of itself. A more proactive approach acknowledges that shape is equally important, as highlighted in Figure 4.

Failure to appreciate the importance of both size and shape can lead to ineffective decision-making. For example, by overlooking staff numbers in their fullest sense, including commissioned services, agency and contract staff, organisations strive to hit their headcount target, but may fail to reduce costs as intended. Whereas viewing shape purely in terms of structure leads to a focus on redesigning the organisation chart, which may significantly alter the managerial levels, but rarely impacts the frontline.

Some fundamental questions should be asked when assessing shape:

- Is the overall organisational shape optimally configured to deliver the strategy?
- Are the right capabilities in the right place in the organisation?
- Are the building blocks of the organisation appropriate?
- Are the leadership team and governance structures appropriate for the objectives of the overall organisation?

Without changing organisational shape, budget reductions risk either staff being asked to do more, or simply less being delivered. Improving efficiency, or addressing size without fundamental change in shape, can achieve greater or at least the same output, yet this benefit tends to be at the margins. Such changes will not deliver the double digit percentage savings that much of the public sector will soon be asked to provide.

## Evolution versus radical change

Size and shape have a tendency to evolve over time rather than be designed. Typically, this evolutionary approach is sub-optimal and will tend to lead to a shape similar to the existing one, rather than the most appropriate model.

Figure 4: Comparing public-sector organisational size and shape

	Size	Shape
Key question	How many people?	How are they organised?
Includes	<b>Not just core staff</b> <ul style="list-style-type: none"> <li>• Agency and temporary workers</li> <li>• Contractors and consultants</li> <li>• Commissioned providers</li> </ul>	<b>Not just structure</b> <ul style="list-style-type: none"> <li>• Governance arrangements</li> <li>• Performance management</li> <li>• Cultural norms</li> </ul>
Articulation	Simple: Headcount and numbers	Complex: Concepts and models
How size and shape interact	We need to reduce headcount How does that impact on our staffing requirements?	How are we going to act differently to achieve this? We need to operate differently
Focus	Cost reduction	Organisation design
Example actions	Recruitment freezes Redundancy programmes	Reduced number of management layers 'Shared services'

Source: Deloitte LLP, 2009



Too often, organisations focus on reducing their size, assuming that if staff numbers are cut, everything else will take care of itself. A more proactive approach acknowledges that shape is equally important.

Figure 5: A comparison of the financial profiles of large system and staff change projects

	Large system or process change projects	Large headcount reduction projects
Development	<b>Significant</b> e.g. develop systems	<b>Modest</b> e.g. design new ways of working
Transition	<b>Modest</b> e.g. change planning	<b>Significant</b> e.g. staff transition
Benefits	Achieved after a lag period following transition	Arise immediately after implementation
Risk exposure and profile	<b>Higher</b> Time lag between cost and benefit	<b>Lower</b> Stronger link between cost and benefit

Source: Deloitte LLP, 2009

In the private sector, competitive pressures demand that organisations respond or go under and the media have recently focused on household names such as MFI, Zavvi and Woolworths ceasing to trade. Although it is too early to predict the new generation of businesses that will be born in this recession, previous downturns have provided the stimulus and market opportunity that have spawned many of today’s largest companies such as IBM and Unilever.

It is often difficult for public-sector organisations to justify making challenging or fundamental changes when it is ‘business as usual’ and there is no competitive spur. However, the massive challenges currently facing the public sector mean that citizens understand that significant changes are needed. It is in these challenging times that the public sector has a real opportunity to re-invigorate itself.

### The finances of headcount reduction

A robust business case should be at the core of any major transformation programme.

Large system or process change projects have an unattractive financial and risk profile, typically requiring large upfront investment, and a significant delay between investment and return, as outlined in Figure 5.

Headcount reduction initiatives require lower upfront expenditure, with costs focused on transition, typically in the form of retraining costs and severance packages. This usually results in a stronger link between transition costs and benefits, thus ensuring a lower financial risk exposure. The entry costs also tend to be more modest, which makes such projects more affordable in terms of cash flow.

This raises the potential to create virtuous circles of investment: an initial investment is used to generate savings, which are then reinvested in a further round of reshaping activities. As a result, small sums of ‘pump-priming’ funding can be used to generate significant savings.

### What does radical organisational change look like?

While there are no clear benchmarks as yet, experience in local authorities suggests that targets of £30 million to £50 million savings per annum are not uncommon, with expectations that around half of this will be generated by staff reductions. A compelling business case should be approved preferably before embarking on a headcount reduction programme. Interestingly, few business cases have been published prior to ‘machinery of government’ changes, although the O’Donnell Review, which recommended the creation of HMRC, is an exception.<sup>18</sup>

Historically, shaping organisations and structures has often been undertaken in an unfocused way, as outlined in Figure 6. Efforts have typically been in response to a particular event, such as a change in responsibilities, or a need to reduce costs. This often focuses attention on the structures and reporting relationships in the organisation chart. New organisations have often been developed in an unscientific way, based on leaders’ perceptions and have tended to reinforce existing ways of working and silos rather than creating genuine change. In extreme cases, chief executives simply draw a new leadership structure without a clear understanding of how the changes will impact frontline service delivery. While this approach may be effective in dealing with short-term challenges, changes are often found to be unsustainable over the long term.

A progressive approach to organisational reshaping tackles these shortcomings by providing a structure to assess the most effective model for services. The focus is a broad one, considering how the different aspects of an organisation, such as culture, processes and structure, can best be arranged to achieve its strategy.

**Common reshaping themes**

Public-sector organisations are increasingly considering more fundamental shifts in their delivery models. These new shapes tend to be structured around customer segments or service pathways rather than professional or functional capabilities. They build in flexibility to enable:

- Responsiveness to change. This requires organisations not just to shift existing silos and boundaries, but to keep them flexible so that they can adapt further over time.
- Adjustable scale. The economic downturn has seen significant changes in the pattern of demand for public services, and the coming years promise further significant changes. New organisational shapes need to be able to adapt capacity to meet changes in customer demand.
- Empowering management layers. Most public-sector organisations are trying to create empowering and enabling (rather than command and control) management layers, but they also need the structures, culture and capabilities necessary to support such an approach.
- Shaping flexible resource pools. Organisations typically contain areas of common skills, processes and responsibilities. While administrative and support functions often collaborate well, there is significant potential for further co-operative working within policy and delivery organisations.

Although every organisational project is different, there are a number of common challenges including:

- Headcount reduction. There can be cultural resistance and a reluctance to own the changes.
- Sponsorship and leadership. Most leaders will have limited experience of organisational change.

- Decision-making frameworks. Leaders will often infer too much from incomplete or misleading information.
- Resourcing. Internal staff rarely have reshaping experience and skills and may struggle to remain impartial, whereas external resources may lack local knowledge or credibility within the organisation.
- Pace. Organisations may not have the luxury of time. Hasty decisions can have long-lasting consequences, but it is important not to lose momentum.
- Stakeholder management. Relationships might be strained if the final project outcome is unknown. Staff must feel involved, but not intimidated by any difficult decisions that are necessary.
- Staying the course. Leaders must be committed to finishing the project, despite hazards during implementation.

**Figure 6: A comparison of the traditional and progressive approaches to organisational reshaping**

	A more traditional approach	A more progressive approach
<b>Focus</b>	Structures and reporting relationships in organisation chart	Capabilities, processes and organisation performance
<b>Mindset</b>	Reducing numbers (size)	Designing the operating model (shape)
<b>Aims and objectives</b>	Responding to a specific event	Helping deliver an overall strategy
<b>Approach</b>	Unscientific	Structured and rigorous
<b>Undertaken by</b>	Senior leadership in isolation	Broad engagement
<b>Impact</b>	High impact at the top of the organisation; little effect on the frontline	Positive impact on frontline service provision
<b>Starting question</b>	How can we do this more efficiently?	What is the public sector requirement to do this?

Source: Deloitte LLP, 2009

### The first steps of resizing and reshaping

Organisations facing funding or strategic changes need a full understanding of their current positions.

Numerous issues must be addressed from different perspectives within the leadership team, which include:

#### Chief executive or permanent secretary

- Are you clear about why each of your agencies and NDPBs need to exist separately?
- When did you last shut down a major programme, an agency or NDPB?
- Have you considered outsourcing or sharing major corporate services with other organisations?
- What progress has been made on your PSAs and departmental strategic objectives, relative to the average across departments and authorities?
- How easily can new policies be accommodated within your organisation?
- Is your leadership team prepared for change and capable of delivering it?
- Have you embarked on the necessary planning for what is likely to be a long transformation process?

#### Human resource director

- Is your manpower plan tailored to adapt to your future expected funding levels and strategies?
- When was your last organisational review?
- Are your bonus payments focused on rewarding the few genuine top performers?
- Is it easy to move your strongest performing staff quickly to work on a major new priority?

#### Frontline operating director

- When did you last change organisational shape in response to citizen demand?
- Have organisational changes saved headcount numbers without increasing expenditure on agency staff and consultants?
- How many organisational layers exist between you and citizens?

#### Finance or planning director

- Do you know whether your agencies and NDPBs deliver value for money?
- Based on existing cost and headcount trends, how long will it take you to reach your current targets?
- Are you in a position to deliver 15 per cent cost reduction and what would be the implications for citizen delivery?

# Examples of success in resizing and reshaping

The good news is that there are many examples where changes to organisational size and shape has been well-managed, thus delivering significant benefits. Four such examples are outlined below, with a table summarising the types of changes followed by a more detailed explanation of each.

Driver of change in size and shape	Can happen when there are:	Potential future causes	Example of success	Also relevant more broadly to:
<b>Merger</b>	<ul style="list-style-type: none"> <li>• 'Machinery of government' changes</li> <li>• Creation of unitary authority, for example when two local authorities merge</li> </ul>	If the Conservatives come to power, they have stated their intention to merge agencies and NDPBs	Department of Energy and Climate Change (DECC)	Central government departments with a policy focus
<b>Demerger</b>	<ul style="list-style-type: none"> <li>• Splits within organisations, for example if a 'shared service' project results in the transfer of functions to a new entity</li> </ul>	The 'localism' agenda – potentially transferring central government responsibilities to local authorities	Central Bedfordshire Council	Local government authorities and organisations with integrated delivery models
<b>Change of direction</b>	<ul style="list-style-type: none"> <li>• Policy changes</li> <li>• Ministerial or local councillor changes</li> </ul>	Whatever the outcome of the next general election, manifesto implementation is likely to alter policy in many public-sector organisations	Jobcentre Plus	Central government departments and large-scale, transactional public agencies
<b>'Over-evolution'</b>	<ul style="list-style-type: none"> <li>• A series of small-scale, tactical decisions in response to immediate pressures</li> </ul>	The cumulative impact of numerous public-sector organisational changes	Defra	Central government departments with a policy focus and complex delivery chains

Type of change	Merger
<b>Key message</b>	A new organisational shape, developed quickly, is typically a critical success factor in any merger and is crucial in ensuring that the new entity can meet its objectives.
<b>Summary</b>	<p>In any merger, it is essential that the shape of the combined entity is appropriate to deliver the new organisation's objectives. The key challenge lies in:</p> <ul style="list-style-type: none"> <li>• overcoming the tensions arising from differences in the legacy organisations</li> <li>• maintaining ongoing delivery responsibilities during the transition</li> <li>• over time, improving outcomes when compared to the legacy organisations</li> </ul>
<b>Key considerations</b>	<p><b>New organisational objectives</b></p> <ul style="list-style-type: none"> <li>• In the absence of clear objectives, it is impossible to define the requirements of the new organisation and therefore, an optimum organisational shape cannot be developed.</li> </ul> <p><b>Reshaping the legacy organisations</b></p> <ul style="list-style-type: none"> <li>• Avoid the temptation to 'reinvent the wheel'</li> <li>• Be honest about what worked and did not work in the legacy organisations</li> <li>• Remove duplicated functions rather than pretending that there are sufficient differences to justify the continued existence of both</li> <li>• Establish consistency in organisational design in order to operate effectively</li> </ul> <p><b>Managing the transition</b></p> <ul style="list-style-type: none"> <li>• Build a story so that staff and stakeholders understand how the transition will happen and engage them at the appropriate time</li> <li>• Many staff will have no experience of a merger. There will be a variety of opinions about the pace and scope of change. Proactive management of communication and engagement is key.</li> </ul>
<b>Example</b>	<p>DECC was created in October 2008, bringing together energy policy (previously part of BERR – the Department for Business, Enterprise and Regulatory Reform) with climate change policy (previously part of Defra). While BERR and Defra were both policy departments, there have been some significant challenges in achieving this merger, including:</p> <ul style="list-style-type: none"> <li>• establishing the budget of the new department</li> <li>• managing ongoing delivery requirements in a high-priority policy area</li> <li>• integrating the ways of working of ex-BERR and ex-Defra staff</li> <li>• aligning front- and back-office systems and processes</li> <li>• harmonising performance management processes</li> <li>• moving staff to a shared location.</li> </ul>

<b>Type of change</b>	<b>Demerger</b>
<b>Key message</b>	Consciously decide what to keep and what to change.
<b>Summary</b>	<p>Successful demergers balance the need for continuity of service provision with making the changes necessary to achieve the anticipated benefits.</p> <p>The practical and logistical necessities of starting a new organisation (or joining another) make it easy to lose focus on required service changes. It requires a conscious decision about which aspects of the organisation need to be kept, whether they be cultural, managerial or procedural, and which should be changed.</p>
<b>Key considerations</b>	<p><b>Shared services</b> Full demergers are often neither desirable nor practical. Many aspects of operations (for example, information technology, human resources and physical accommodation) may take time to disentangle. Due to economies of scale or retention of certain capabilities, a full demerger may not be appropriate. Practical shared service arrangements, including service level agreements, governance and corresponding financial arrangements, need to be quickly established.</p> <p><b>Multiple sets of stakeholders</b> Demergers typically have at least two distinct sets of stakeholders, linked to either the parent organisation or the new subsidiary. Input across these groups and sign-off arrangements need to be carefully balanced. In many cases, senior teams in the new organisation may not yet be in place, making engagement and meaningful decision-making challenging.</p> <p><b>Plan for a negotiation</b> Agreement on all aspects of the demerger is highly unlikely and some form of negotiation will be inevitable. The most successful negotiations are structured and planned by both teams. Striking the right balance between joint and individual working can also help to reduce the list of outstanding items for negotiation.</p>
<b>Example</b>	<p>On 1 April 2009, the new Central Bedfordshire Council came into existence as part of the latest round of local government reorganisation. Creating the new council involved merging services previously provided by the former Mid and South Bedfordshire district councils. It also involved separating services provided by the former Bedfordshire county council into two distinct organisations.</p> <p>Fully separating all of the former county operations, given the complexities of systems, processes and infrastructure, would have been neither practical nor cost effective. Working with the new Bedford Borough Council, Central Bedfordshire agreed what needed to be separated initially, what could remain shared in the short term, and what could potentially remain shared over the long term.</p> <p>The ambition of the new authority is to transform public services in the area. Initial organisational reshaping has focused on building a robust model for immediate service delivery and a platform from which to deliver future transformation.</p>
<b>Type of change</b>	<b>Change of direction</b>
<b>Key message</b>	Any significant change in strategy is likely to require organisational change to succeed.
<b>Summary</b>	Leaders decide that an organisation needs a new direction, requiring a new strategy, objectives and targets. Too often, they leave the shape of the organisation untouched whereas experience suggests that making structural changes is more than just sensible, it is often a prerequisite to delivering the intended strategy.
<b>Key considerations</b>	<p><b>Merging the old and the new</b> Most strategic reviews and changes of direction are not thorough changes. Elements of the old strategy will be retained, while supplementing it with new ideas. There will also be changes required in other areas, or even a need for new functions. The key is to clarify and agree each of these and carefully consider how to combine different parts of the organisation to deliver the new strategy successfully.</p> <p><b>New capabilities required</b> Deciding to do something new is the easy part. Judging what capabilities, competencies and skills are needed for execution is much harder. Leaders need to consider:</p> <ul style="list-style-type: none"> <li>• Which are the core skills needed for delivery?</li> <li>• What are the key outcomes required from a customer perspective?</li> <li>• Where should skillsets fit within the organisational structure?</li> <li>• How should such skills be deployed?</li> </ul> <p>Once new capabilities have been identified, consideration should also be given to whether they can be sourced internally (if so, what the impact might be on existing staff and functions), or if recruitment or outsourcing are preferable.</p> <p><b>Matching capabilities with functions</b> Perhaps the most challenging aspect of a change in direction, from an organisational perspective, is determining how any new capabilities should be grouped with existing functions. Options include creating new arms of an organisation or merging new and old capabilities. Leaders need to consider many issues, such as the implications on governance, 'spans of control', the extent to which capabilities are complementary and whether checks and balances are required.</p>
<b>Example</b>	While reviewing their strategy in 2004, Jobcentre Plus decided to place more emphasis on third-party procurement, which involves the external provision of services to those on benefits. The leadership team needed to decide which part of the organisation should be responsible for delivering this change. Existing capability in this area was deemed low, and the decision was quickly taken to create a new function focusing on the topic. However, there was a debate about the most appropriate shape for the new function. As always with organisational reshaping, judgement was required. While there was clear rationale for locating the function within Finance, principally as a means of controlling expenditure, it was determined that the potential for synergies with the Partnerships team was high and that grouping these two functions together would be a better organisational solution.

<b>Type of change</b>	<b>'Over evolution'</b>
<b>Key message</b>	Regularly assess whether the resources and structures of the organisation remain appropriate for its context and objectives.
<b>Summary</b>	Organisations often evolve by adapting to immediate pressures. Such evolution usually consists of a series of small-scale tactical decisions. Over time, these cumulative changes may cause the organisation to lose its strategic focus. Teams may become unbalanced in terms of capability or capacity. Ultimately a significant correction is required to bring the organisation back to optimum performance.
<b>Key considerations</b>	<p><b>The evolving context and strategy</b> Even if there has been no fundamental change of strategy, the broader context or detailed strategy may have evolved. Leaders need to identify the principal areas of change and the impact they will have on different areas of the business. For example, a public-sector department may have transferred responsibilities to a number of delivery bodies. As the delivery landscape changes, it is important to control the level of resource invested in managing these delivery bodies.</p> <p><b>Revising organisational shape</b> Having established how context or strategy has changed, it is beneficial to revisit the detailed organisational shape. Typically this will not result in wholesale organisational change, but rather tailored changes to specific functions or teams. Key questions include:</p> <ul style="list-style-type: none"> <li>• Where are the financial and headcount resources of the department invested? Are investments made in permanent staff, contractors or consultants?</li> <li>• In areas where there are differences in investment, is this due to different priorities, operating models or investment time spans?</li> <li>• Are these differences justified in the context of the organisation's objectives?</li> </ul>
<b>Example</b>	<p>In 2006, Defra faced the challenge of improving delivery and addressing the issues raised in its Capability Review, while at the same time achieving the Comprehensive Spending Review target.</p> <p>Defra's resources had become locked in to specific policy areas, and the management team was looking for greater flexibility about how staff deployment was prioritised. The RENEW programme was established to re-examine the operating model. As a result, Defra moved to a more project-based approach to policy. All 3,000 staff in the core department now work in a programme and project structure which is modelled on professional services firms. The staff register their skills profiles and day-to-day availability online, so that they can be identified by a Flexible Staff Resourcing team as new roles and opportunities arise.</p> <p>Although the underlying organisational shape still reflects core objectives, all staff have also been assigned to a career 'home' (for example, economists, scientists or policymakers). Heads of these career homes are able to take an overall view of all staff within their specialism and can support the development of talent and specific skills. Underpinning the more responsive project structure and flexible resourcing mechanisms is a rigorous and disciplined approach to business planning and portfolio management.</p> <p>Consequently, Defra has achieved a much higher degree of flexibility to adapt to changing priorities and this has resulted in a much more effective contribution to the overall objectives of the department.</p>

# Conclusion

The looming government deficit presents massive challenges for the public sector, which is also facing rising expectations from citizens and the changing nature of service delivery. A focus on tactical cuts, particularly headcount reduction, might bring short-term savings but it could also damage organisational effectiveness in the longer term. A strategic approach, taking account of structure, governance and culture, may help to identify more sustainable savings.

If public-sector leaders are able to resize and reshape their organisations, they will be in a much stronger position to deliver the required savings. Undeniably, such changes will be hugely challenging, yet they could also offer opportunities to deliver reforms that might otherwise be resisted when it is 'business as usual'. For example, redesigning service delivery models with an increased focus on customers' needs could ultimately lead to improved quality.

By drawing on the experiences and approaches outlined in the four success stories in the previous section, public-sector leaders can prepare for the likely pressures ahead. Such approaches can help organisations to develop a size and shape that is more robust, thus enabling them to emerge from the recession stronger and achieve more – with less – in the future.

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**If public-sector leaders are able to resize and reshape their organisations, they will be in a much stronger position to deliver the required savings.**



# Notes

- 1 This report uses the term 'public-sector organisations' to describe central government departments, local authorities, devolved administrations, executive agencies and non-departmental public bodies.
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