INSTITUTE FOR GOVERNMENT

Creating and dismantling government departments
How to handle machinery of government changes well

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Prime ministers in the UK have an almost unparalleled ability to restructure government departments as they see fit, and often use the opportunity of first taking office to do so. These changes are frequently made with little consultation or recognition of the costs involved. This paper looks at why these changes are made, the challenges they present and how they can be done well.

Our research shows that the direct cost of creating a new department can be around £15m, with up to £34m on top resulting from loss of productivity as staff adjust to the new organisation. In one case – the creation of the Department for Work and Pensions (DWP)* in 2001 – the estimated cost exceeded £170m. The new or reconfigured department is expected to hit the ground running immediately but, unsurprisingly, this is rarely the reality.

*   A list of abbreviations is found at the end of this paper.

Moving policy areas between government departments – or creating completely new departments – is one of the prime minister's key levers of power. These 'machinery of government' changes can be used to show the country that the government is taking an issue seriously; to bring together related issues previously dealt with in different parts of government; or to reward loyal colleagues with promotions or demote those no longer seen as key supporters.

Unlike in systems of government elsewhere in the world, in the UK the prime minister has an almost unlimited ability to shape government bodies as he or she sees fit, without agreement with their colleagues or approval from Parliament.

In most cases, once the prime minister has announced a change, he or she will lay a 'transfer of functions order' before Parliament. However, these are generally subject to a negative resolution procedure, meaning the change is approved unless MPs explicitly raise an objection. These orders also do not allow parliamentarians to express a view before the decision is made.

During the most recent major departmental reorganisations, carried out by Theresa May when she became prime minister in 2016, the relevant order only came into force in November of that year, four months after she announced the changes.[1]

While there is a limit on the number of Cabinet-level ministerial roles that can be created (a maximum of 21 secretaries of state), few specific roles or departments are required by law. The most recent departmental change requiring legislation was the creation, in 2003, of the Department of Constitutional Affairs (subsequently merged with some Home Office functions to become the Ministry of Justice, MoJ). Primary legislation, by way of the Constitutional Reform Act 2005, was required in that instance because the then Labour government wanted to make changes to the role of the judiciary.
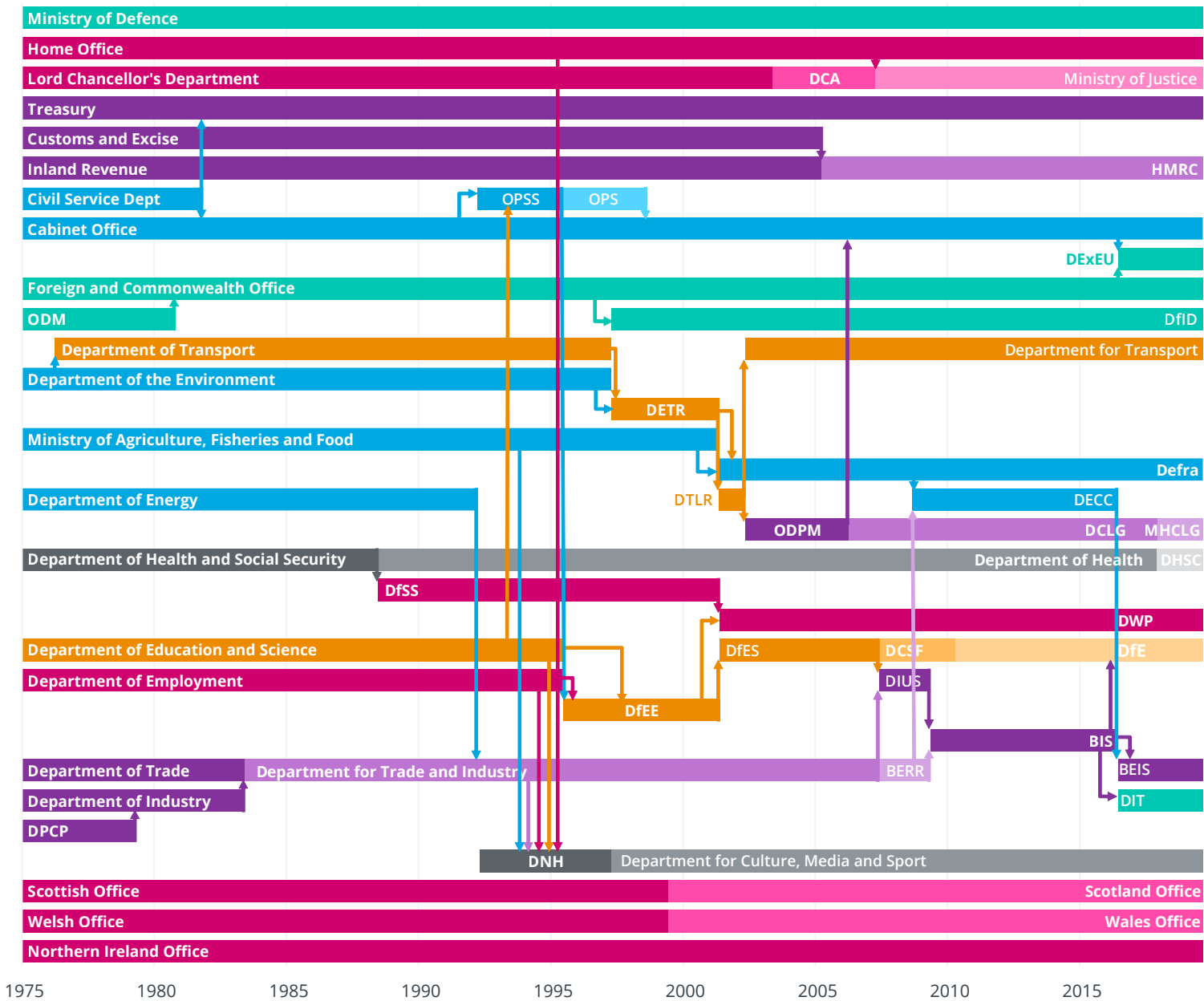
But in general, prime ministers are fairly free to reshape government as they see fit.

Previous prime ministers have used this ability to different extents. After winning the 1997 general election, Tony Blair established three new departments: for the Environment, Transport and the Regions (DETR); International Development (DfID); and Culture, Media and Sport (DCMS). Gordon Brown went further, rearranging the responsibilities of five departments in his three years as prime minister (see Figure 1, overleaf).

From 2010, however, David Cameron sought to reduce the amount of change in departmental roles and responsibilities.

Departmental reorganisations came back onto the agenda after the 2016 EU referendum, when May announced the creation of two new departments (for Exiting the EU, DExEU and for International Trade, DIT), the merger of the energy and climate change and business departments (into the Department for Business, Energy and Industrial Strategy, BEIS) and the transfer of a number of other policy areas from one department to another.

Figure 1. History of departmental reorganisations

Department	Timeline
Ministry of Defence	1975–present
Home Office	1975–present
Lord Chancellor's Department → DCA → Ministry of Justice	
Treasury	1975–present
Customs and Excise	
Inland Revenue → HMRC	
Civil Service Dept → OPSS → OPS	
Cabinet Office	
DExEU	
Foreign and Commonwealth Office	
ODM → DfID	
Department of Transport → Department for Transport	
Department of the Environment → DETR → DTLR	
Ministry of Agriculture, Fisheries and Food → Defra	
Department of Energy → DECC	
ODPM → DCLG → MHCLG	
Department of Health and Social Security → Department of Health → DHSC	
DfSS → DWP	
Department of Education and Science → DfES → DCSF → DfE	
Department of Employment → DfEE	
DIUS	
BIS	
Department of Trade → Department for Trade and Industry → BERR → BEIS	
Department of Industry	
DPCP	
DIT	
DNH → Department for Culture, Media and Sport	
Scottish Office → Scotland Office	
Welsh Office → Wales Office	
Northern Ireland Office	

1975 1980 1985 1990 1995 2000 2005 2010 2015

Boris Johnson has so far not made any significant changes to the responsibilities of government departments. But several politicians, Conservative and Labour, have made suggestions for changes.

During the 2019 Conservative leadership contest, Dominic Raab, now foreign secretary, suggested folding DIT and DfID into the Foreign and Commonwealth Office (FCO), where many of those departments' officials had been based before their creation.[2] The Labour Party's 2017 general election manifesto proposed creating two new departments – for labour and housing[3] – and Jeremy Corbyn made a speech in September 2019 calling for a Ministry for Employment Rights.[4] Likewise, the Liberal Democrats have called for the Department of Energy and Climate Change (DECC) to be re-established.[5]

After December's general election, the incoming – or returning – prime minister may well want to stamp his or her authority on government by rearranging departments. In this paper we assess the benefits of doing this, the costs involved, and the ways politicians and officials can maximise the success of the process. To do this we draw on new analysis of government data, interviews with officials involved in the 2016 changes and previous Institute for Government research.

Rearranging departments can work well

Prime ministers have different reasons for making changes to the structure of government. Some are more likely to result in success than others. We look at the most common motives for change below.

Increase focus on a specific issue

If an issue is of particular importance to the prime minister and his or her colleagues, creating a dedicated department can be a way of focusing attention on and building momentum for it.

International development is one such example. This policy area had long fallen under the remit of the FCO, but on the creation of DfID in 1997 was given more independent focus. Clare Short, the inaugural secretary of state of the department, argued that it made sense to have a separate department to "ensure that development issues did not always come second to the issues of security and trade that were commonly prioritised within the Foreign Office."[6]

Short took the opportunity of a new department to set out a vision for UK aid policy that "shunned the use of aid for commercial or strategic geopolitical aid interest".[7] This culminated in the International Development Act 2002, which still provides the legal base for most of DfID's activity, and focuses the department on reducing poverty around the world.

But decisions of this nature can be subject to changing political winds. Conservative governments have traditionally wanted to align development policy more closely with foreign policy.[8] Indeed, two of DfID's four junior ministers are currently joint ministers with the Foreign Office.[9]

As such, the pendulum has recently swung away from Short's vision, with successive Conservative secretaries of state trying to bring DfID's spending more in line with overall foreign policy objectives.[10] Labour, on the other hand, intends to task DfID to focus more explicitly on tackling global inequality.[11]

Creating a new, focused department only works if the political will behind the new organisation is sincere. If it is simply a rebranding exercise, designed to garner positive headlines or give the impression of change but not properly equipped to achieve its new purpose, the restructuring is unlikely to have the impact the government may have envisaged.

The case of DExEU, discussed in more detail below, highlights the risk of creating a department with a specific objective but without a clear idea of what achieving that objective would require. At the same time, removing part of a department can weaken the original organisation – as many argue has happened with the Foreign Office, which has seen various parts of its responsibilities move to other departments over the years.[12]

Bring together related policy areas

Another reason for rearranging departmental responsibilities is to bring ministers and officials working on related issues together under one roof. Creating bigger departments, responsible for a wider range of connected policy areas can help maximise synergies or resolve conflicts.

This was in part the motivation behind the creation of DECC in 2008. Its creation helped those in government thinking about the future of the UK's energy system to work more closely with those seeking to combat climate change. The idea was to force the tensions between those different policy objectives to be resolved within a department, rather than around the Cabinet table.[13]

Interviewees differed on whether this was a successful change; concerns were expressed in previous Institute work that 'internalising' these tensions would reduce the ability of others across government to influence the debate within DECC, despite decisions taken by the DECC secretary of state affecting all of government.

The desire to exploit synergies between higher education policy and other policy areas helps explain why responsibility for this has moved between departments. From 2009 to 2016, policy makers working on higher education sat in the then Department for Business, Innovation and Skills (BIS), to ensure higher education policy supported UK business and promoted innovation. However, in 2016, May moved BIS's civil servants to the Department for Education (DfE) to bring them together with those working on other levels of education, including further education.

This illustrates the difficulty of drawing firm lines between policy areas, and there is no clear way to resolve this permanently. Such reorganisations can run the risk of weakening previously existing links between officials in favour of others. People we spoke to who were involved in the move of universities policy to DfE thought this

change had been unsuccessful, in part because it weakened the link between higher education and business. Jo Johnson, universities and science minister under three prime ministers, told us that:

> "When universities were in [BIS], they were really part of our overall growth narrative: universities were 'knowledge factories', 'engines of innovation', all that sort of stuff. As soon as they went over to DfE, the civil service mindset changed altogether, and they became part of the public sector, part of the overall education machine."[14]

Another downside of creating bigger, arguably less-focused departments is that issues deemed a lower priority can lose out as they do not have their own secretary of state to represent them at the Cabinet table. For example, when DECC and BIS were merged in 2016, there was some concern that not having a department explicitly responsible for the UK's efforts to tackle climate change would lead to the issue slipping down the government's agenda.[15]

Improve operational delivery

Many decisions on the responsibilities of government departments have been made mainly with a view to policy portfolios and relationships within Whitehall and Westminster. But some changes have instead been motivated by a desire to change how departments deliver their services to the public.

This was the motivation behind one of the largest and most significant departmental changes of recent times: the creation of DWP in 2001. This combined employment advice and job-seeking support services from the former Department for Education and Employment (DEE) with the benefits and pensions systems of the then Department for Social Security (DSS).

By bringing together these related services and providing one place for the public to get information on benefits and support for those looking for work, the change created a streamlined organisation that has stood the test of time (even if its flagship policy, Universal Credit, continues to attract criticism).[16]

Labour came to power in 1997 hoping to introduce a different approach to managing benefits and employment support, but instead of announcing a rapid change, it took time to consider whether to merge the employment divisions of DEE into DSS, or to move working-age benefits the other way. A Whitehall committee was established to consider the pros and cons of each option, bringing together the two departments and the Treasury. The committee established trials across the country to look at how the two departments could best work together at a local level.

Following successful trials, the committee oversaw detailed planning for the merger, which considered issues such as IT integration and achieving cultural change in whichever solution was adopted. This planning was also announced publicly, which officials reported led to difficulties as ministers and officials discussed significant changes that would have a direct impact on their own jobs.

The committee reported to the prime minister shortly before the 2001 election, recommending that DEE take on the expanded responsibilities. After the election, Blair went ahead with the change but chose DSS as the department to be expanded, adding employment support to its remit to create DWP. Although the headline change was in fact the opposite of the committee's recommendation, the work done in considering the different options helped resolve many of the predicted issues in the eventual reorganisation early on.

Both the detailed process and the rationale behind Blair's DWP change are relatively uncommon in the UK. Most departmental restructurings have been done quickly, without a full assessment of the potential impacts or operational implications.

In 2016, that was the case more often than not. May announced the creation of both DExEU and DIT on the day she became prime minister and the departments were expected to be up and running within days. Our interviews suggest that May made these decisions, along with the creation of BEIS, very quickly and with little consultation beyond a close team of advisers in No.10.

Reorganisations can create more problems than they solve

Rearranging government departments can make sense, with the benefits outweighing the costs of upheaval. Unfortunately, many of the most recent changes seem to have been made without proper forethought and have – in some cases – ended up costing more than any benefits returned.

Sending a political signal

As outlined above, rearranging or creating a department can be an effective way to focus attention and drive change in an area of importance to a prime minister. But doing this simply to send out the message that the government is dealing with an issue can lead to confusion and wasted energy.

Theresa May created the Department for Exiting the EU (DExEU) and the Department for International Trade (DIT) as soon as she became prime minister, to signal that her government would make a priority of leaving the EU and seizing the supposed trading opportunities of doing so. But beyond the symbolism of this move, the departments did not have the detailed remits and objectives that would have allowed them to deliver on this promise.

DExEU's initial objective was defined simply as 'delivering Brexit'. Ministers and officials had to get up to speed quickly on countless policy issues but without a clear sense of what their role was in delivering Brexit actually was, or how this interacted with the roles played by other central teams in No.10, the Treasury and Cabinet Office.

As Sir Ivan Rogers, former UK permanent representative in Brussels, told the Foreign Affairs Committee, the dual reporting lines of DExEU officials to both the secretary of state and the prime minister were "structurally bound to be a mess."[17] The difficulties

of creating an effective DExEU have since been compounded by frequent changes of secretary of state, uncertain direction from May and, after she left office, an apparent change of focus from Boris Johnson – namely, switching from no-deal planning to negotiating the reworked withdrawal agreement.

This has meant that the department has struggled to find a stable role within government and has led to duplication of other departments' work.[18]

Similarly, the decision to create DIT signalled to the EU that May was planning to take the UK out of the EU customs union, before that had been made official government policy. For months after DIT was created, the government continued to discuss the pros and cons of remaining in the customs union. It was not until May's Lancaster House speech in January 2017[19] that she confirmed explicitly that she wanted the UK to be outside the main components of the customs union, in part so that DIT would have more leeway to strike trade deals.

Here again, the decision to create a department in haste and without a clear sense of purpose led to confusion within government, and raised expectations about new trade deals that were impossible to fulfil.

Playing politics

Prime ministers sometimes create or rearrange departments in order to placate party colleagues. Tony Blair, on entering No.10 in 1997, created the mammoth Department of the Environment, Transport and the Regions (DETR), in part to reward his ally John Prescott. But DETR proved overly large and unwieldy, and was slowly dismantled over the next few years; various parts moved to the Department for Environment, Food and Rural Affairs (Defra), the re-formed Department for Transport (DfT), the ill-fated Office of the Deputy Prime Minister and, ultimately, the Department for Communities and Local Government (DCLG).

In 2007, Gordon Brown expanded the Department for Education and Skills (DfES) to create the Department for Children, Schools and Families (DCSF) and established the Department for Innovation, Universities and Skills (DIUS). The creation of the latter allowed Brown to bring John Denham, who had resigned from Blair's government in 2003, into the Cabinet as a new secretary of state (while avoiding the need to replace any existing secretaries of state).[20]

But this favour to Denham was short-lived. In 2009, DIUS was disbanded and merged into another new department, BIS, with another key ally in Lord Mandelson rewarded with the role of secretary of state. The desire to reward political allies with Cabinet posts means that prime ministers can create departments that are subject to changing political relationships.

Managing the size of the Cabinet

The Ministerial and other Salaries Act 1975 dictates that there can only be 21 secretaries of state, which is broadly in line with the number in other similar democracies.[21] This means that, if a prime minister wants to create a new department headed by a secretary of state who will also sit in Cabinet, they may need to reduce the number of secretaries of state elsewhere.

When Brown merged DIUS into the Department for Business, Enterprise and Regulatory Reform (BERR) in 2009, he freed up a Cabinet role, allowing him to create DECC, with Ed Miliband as its inaugural secretary of state. In 2016, May merged DECC and BIS into BEIS to free up a Cabinet post, as otherwise she would not have been able to create the two new posts of the secretaries of state for DExEU and DIT. Our interviews show that this was the principal motive for merging DECC and BIS.

That merger was decided on in haste without a careful consideration of the synergies between the remits of the two departments; May and her team knew they needed to lose one department and chose DECC. But they did not have a clear plan for where the responsibility for energy and climate change policy should end up. According to officials involved in the process, through the course of just 24 hours both Defra and DfT were considered as possible partners for DECC, before BIS was chosen as the final candidate.

This rushed decision making – focused solely on the need to 'put DECC's policies somewhere', rather than thinking through where those policy areas might best fit – left the new department scrabbling to build a coherent identity and narrative around a disparate set of issues. One senior official involved said that the new department did ultimately find synergies and draw on the best aspects of each of the original departments, but that this was "more by luck than design".

At other times, a prime minister creates a seemingly new role simply by changing a minister's title. May added social care to the responsibility of the Department of Health (DH), but this re-branding did not change the fact that social care is in fact the responsibility of local, rather than national, government. Steve Brine, a junior minister at DH and the new Department of Health and Social Care (DHSC) told us that the name change did not affect his role at the department, and that the Ministry of Housing, Communities and Local Government (MHCLG) continued to answer many questions on social care in Parliament.[22]

Changing departments like this can actually add to confusion about which organisation, and which minister, is accountable for which issue. Too often, accountability is an afterthought when governments reshape policies and the organisations in charge of delivering them.[23,24]

This is a problem: unclear accountability is, at best, detrimental to effective stewardship of public money; at worse, it can result in harm to the public.

Rearranging departments is not easy

Whatever the motivation behind reorganisations, changing the role and responsibilities of government departments is always a complex process. Such changes not only incur upfront financial costs but also typically result in a loss of productivity as officials are distracted from their day-to-day priorities. Morale, too, can be hit by changing teams' objectives and working culture.

Understanding these challenges will help politicians and officials decide whether the expected benefits of the change they are considering are likely to outweigh the costs. Assessing the potential downsides will also help manage and mitigate them.

Restructuring costs money

Any organisational changes will have direct, short-term costs. Previous work by the Institute found that the upfront financial cost of setting up a new Whitehall policy department or a mid-sized merger averaged around £15 million in total.[*]

The principal costs involved are acquiring and fitting out new office space and integrating IT and HR systems; others include developing and implementing consistent branding for the new organisation. Officials we interviewed who were involved in the creation of the new departments in 2016 confirmed that the costs of those changes were of a similar size. But the government does not assess these costs in any systematic way and they do not feature in the relevant departments' annual reports.

In addition to these basic costs, departmental reorganisations can lead to a substantial increase in salary costs if staff on one payscale are merged with others on a substantially higher one.

This happened when Defra was created in 2001. Following industrial action, lower-paid staff from the former Ministry of Agriculture, Fisheries and Food had their pay increased to achieve greater parity with the salaries received by their new colleagues who had worked on environmental policy in the former DETR. These salary bumps alone cost an estimated £15m in the first year when pay was aligned. Because these salary increases were then built into future pay awards, the long-run costs will have been higher. Differential pay also created a problem when DWP was formed; the new department eventually spent £140m to equalise pay (a much larger figure than other reorganisations, given more officials work in DWP).[25]

The 2016 reorganisations do not, however, seem to have resulted in similar pay disputes and realignments. For example, the staff from BIS and DECC, brought together under BEIS, had already been on similar payscales.

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[*] This is also consistent with the National Audit Office's work, looking at reorganisations of central government departments and their arm's-length bodies, which estimated that the 90 reorganisations that took place between 2005 and 2009 cost £15m each on average. See Comptroller and Auditor General, *Reorganising Central Government*, 2010, www.nao.org.uk/report/reorganising-central-government

The Treasury argues that departments should cover any costs of reorganisations from existing budgets, rather than expecting to receive additional funding.[26] But departments often struggle to find sufficient money for the essentials – at least not without arduous discussions with other parts of government. One official told us that in 2016 they had to negotiate an agreement between permanent secretaries just to buy furniture for their new organisation.

Time civil servants spend discussing such basic issues is time they cannot use to focus on their new jobs. These distractions are noticed by ministers: Jo Johnson – universities minister in 2016, when higher education was moved from BIS to DfE – told the Institute:

> "I was not particularly keen on seeing universities move over to DfE. It created a lot of turbulence in the system for a while, a lot of upheaval as people found computers and offices and so on."

Navigating the steps required to set up a new department can be particularly difficult if, as we were told is often the case, those tasked with managing the change are policy experts rather than people with specialist skills. During a reorganisation, skills in HR, finance or estates often prove to be more useful than policy expertise.

Restructuring has less tangible costs

As well as the immediate costs of new offices, IT equipment and salaries, departmental restructures often create other, less tangible costs resulting from a decline in officials' productivity and the time taken for the new organisation to bed in. The uncertainty and confusion of the first weeks and months of a new or refocused organisation often mean that officials spend their time dealing with making the organisation work rather than tackling the policy issues it has been set up to deal with.

For new departments, this can mean setting up new processes to deal with parliamentary and media scrutiny, if none have been inherited from predecessor departments.

There can also be more widespread and longer-lasting effects on productivity if staff are resistant to or unsettled by the change. It is difficult to estimate exactly how large the sorts of productivity losses are. Calculating this accurately would require measures of departmental input and output before, during and after the change. Collecting such information would be extremely challenging – given the difficulties of defining and measuring the output of government departments – and has not been attempted.

However, previous Institute work provided a rough estimate of the loss of productivity by assuming (conservatively) that 20% of staff suffer a 20% productivity loss, for 10 months (i.e. a 4% drop in overall productivity). This was based on wider research into organisational change that concluded that a fifth of staff will be disengaged and resistant to change no matter how well the process is managed.[27]

Such estimates imply that the productivity losses from departmental reorganisation can be as large – if not larger than – the direct financial costs of new accommodation, IT and HR systems and the like. For example, based on the staff costs for BEIS in its first

full year of operation (2017/18), a 20% loss of productivity for a fifth of staff for 10 months equates to a cost of £34m.[28] For a smaller department like the newly created DIT, the figure is £5.4m.[29]

Senior civil servants we interviewed when looking at the departmental reorganisations under Blair and Brown supported this view of a hit to productivity. They cited this sort of 'resistance to change' as the single most important issue in reconfiguring departments. Morale can be affected both by the frantic nature of reorganisations and by the perception that certain policy areas are now seen as of lower priority.

For example, one interviewee told us that when responsibility for universities was moved from BEIS to DfE in 2016, there was some concern among officials working on higher-education policy that the issue was being deprioritised. Civil servants in the original organisation can also suffer a hit to morale, as their colleagues are moved to work on a new, higher-profile policy issue. Reduced morale can lead officials to be less productive, which can have a negative effect on both new and original departments.

The 2016 Civil Service People Survey, an annual survey of officials across government departments, shows that the 'engagement score' of BEIS officials was slightly lower than the scores reported by DECC and BIS officials in the previous year. This came in a year when the overall civil service average increased.[30]

DIT, also created in that year but drawing officials from a range of other departments, also returned a score for the same question that was lower than the civil service average (56% against 59%)*. One of the senior officials involved in the 2016 changes told us that morale suffered significantly as civil servants got used to the new focus of their restructured departments.

All interviewees highlighted the risk of lower morale and the subsequent impact on productivity. But, while the issue of poor morale can be severe, it also tends to be temporary: officials at both BEIS and DIT now meet or exceed the civil service average for engagement, with scores of 62% and 64% respectively in 2018, compared with a civil service average of 62%.

They are joined at the top of the engagement table by DExEU, which since its creation in 2016 has enjoyed an above-average engagement score (68% in 2018). This is due perhaps in part to the relatively young age of its staff and the relatively quick path to promotion within the department.[31]

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* Engagement scores are measured as an average percentage of officials' responses to a series of positive and negative statements regarding the civil service.

Figure 2. Departmental engagement scores (%)
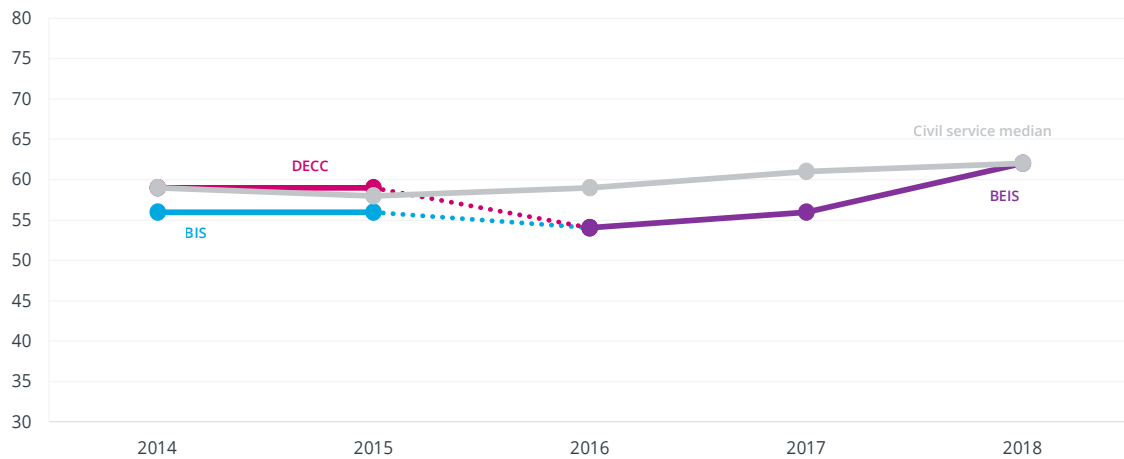
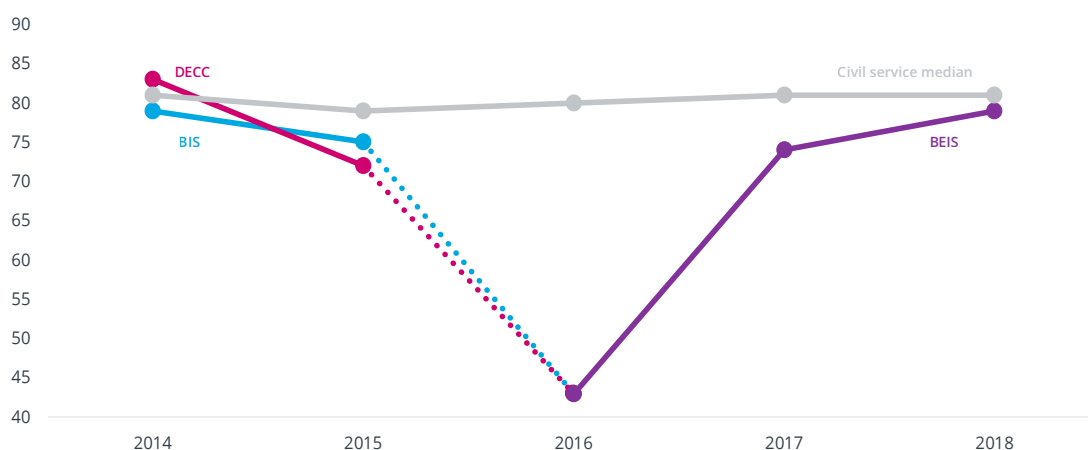Source: Institute for Government analysis of Civil Service People Survey data.

Looking farther ahead, to the first year or so of a new department's life, another factor affecting staff productivity after a departmental merger is the time taken for a new organisation to start functioning as a single entity. Several interviewees told us that the teething pains of new or merged departments last for months or years. Theresa May's decision in 2016 to merge DECC and BIS into BEIS created a Whitehall behemoth that took on responsibility for a large number of issues. A senior official involved in its creation said that it took around two years for the new department to operate properly as a single entity.

Another interviewee, who held senior roles at BEIS's predecessor, BIS, before 2016, said that it had also taken around the same time for it to work as a unified organisation after it was created in 2009. This tallies with previous Institute research, which found that many of the departments created in the 2000s by Blair and Brown also took at least two years to become fully integrated.[32]

This raises questions about the rationale behind establishing a new department to deal specifically with a 'priority issue': by the time the department is fully up and running, circumstances – and so priorities – may well have changed.

Responses to the Civil Service People Survey also provide evidence of the time it took for BEIS to start operating as a single entity – with a clear mission. There was a sharp drop in 2016 in the percentage of BEIS officials who said they had a clear view of the department's objectives compared to its predecessor departments a year earlier. As Figure 3 shows, over the following two years this uncertainty reduced; BEIS officials are now around the civil service average in terms of their understanding of their department's objectives.

Figure 3. Percentage of civil servants who understand their organisation's objectives

Source: Institute for Government analysis of Civil Service People Survey data.

On the other hand, officials at DExEU and DIT have always felt that they had a clear sense of their department's objectives, with 71% of both departments' staff agreeing this was the case in 2016; in 2018, 83% of DExEU officials, and 85% of DIT officials, agreed. This is presumably because these departments were given seemingly clear objectives and were responsible for delivering political priorities.

But while objectives may have been clear, that does not mean they were consistent. In three years, DExEU has gone from being in charge of conducting exit negotiations to supporting the Cabinet Office in doing so; and from co-ordinating preparation for a no-deal exit to again supporting the Cabinet Office in doing so. Meanwhile DIT, which was set up with the hope of negotiating new trade deals, actually found its first few years of existence focused on 'rolling over' the EU's existing trade deals, which the UK would otherwise lose access to once it leaves the bloc.

Both departments suffered from an unclear political vision of what their new roles really entailed – and have had to spend the subsequent three years working it out.

Table 1 (overleaf) summarises the estimated costs involved in creating or merging departments, based on case studies carried out by the Institute for Government and the National Audit Office. This shows that the overall costs of creating new departments or rearranging existing ones – including the upfront costs, alignment of salaries and the loss of productivity outlined above – have ranged from £15m, for DIUS, to £173m, for DWP.

The estimated cost of creating DWP was much larger than the other examples due to its comparatively large workforce; the cost of addressing pay alone totalled £140m. These figures do not factor in the expected longer-term benefits of the changes.

Table 1: Estimated costs of creating and rearranging government departments

Department (year created)	Upfront costs	Salary alignment	Possible productivity loss	Total
Defra* (2001)	£6m	£15m	£10m	£31m
DWP* (2001)	£9m	£140m	£24m	£173m
DIUS* (2008)	£14m	£0m	£1m	£15m
DECC* (2008)	£14m	£0m	£2m	£15m
Average of 90+ reorganisations (May 2005 – June 2009)‡	£15m	–	–	–
DExEU† (2016)	–	£0m	£1m	–
DIT† (2016)	–	£0m	£5m	–
BEIS† (2016)	–	£0m	£34m	–

Sources: * = Dunleavy P and White A, *Making and Breaking Whitehall Departments: A guide to machinery of government changes*, 2010. ‡ = Comptroller and Auditor General, *Reorganising Central Government*, National Audit Office, 2010. † = Institute for Government calculations based on the methodology used by Dunleavy P and White A.

Notes on table methodology

Upfront costs = the tangible costs of setting up a new organisation, including integrating IT and HR systems and acquiring and refurbishing office space.

Salary alignment = cost of addressing differential pay levels if staff on different payscales are brought together.

Productivity loss = a rough, conservative estimate of the cost of output lost as a result of the upheaval (see page 10). Figures are calculated assuming that a fifth of staff in newly created departments suffer a 20% loss of productivity for 10 months.[*]

"–" = figures are not available.

How to do these changes well

Despite the inherent difficulties in rearranging government departments, there can be compelling reasons to make changes. But if done for the wrong reasons or planned poorly, these can result in more problems than they solve, and come at a high cost.

In this section, we set out the ways those responsible for making these changes can ensure they are done as effectively as possible. The decision to rearrange departments is political, so we first consider what ministers (particularly the prime minister) should bear in mind when making such a decision.

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[*] See White A and Dunleavy P, *Making and Breaking Whitehall departments: A guide to machinery of government changes*, Institute for Government, 2010 for further details.

Consider the alternatives

While rearranging departments' responsibilities may allow the government to point to manifest progress on a priority area, it does not always solve the problem it was intended to address. Treating the creation of a new department as an end in itself, rather than the means to achieving an end, can lead to ineffective decisions.

Politicians should, therefore, always consider whether an alternative course of action would be more suitable – doing so can save money and effort. Alternatives to full departmental reorganisations are found below.

Joint offices

Where a policy issue cuts across the responsibility of numerous departments, a joint office reporting to the relevant departments can be an effective way to ensure that the issue gets sufficient attention from both ministers and civil servants. When Boris Johnson became prime minister, he created the Office for Veterans Affairs (OVA),[33] which is a joint office of the Cabinet Office and the Ministry of Defence (MoD) that aims to "pull together all functions of government" to better support armed forces veterans. The new office will "work in partnership with local authorities and the devolved administrations" to co-ordinate the support available for veterans.

In creating the new office – which has a voice at the Cabinet table in the form of Oliver Dowden, minister for the Cabinet Office, as well as a dedicated minister at the MoD, Johnny Mercer – Johnson has sent a clear signal that this issue is a priority for this government, but without the same upheaval as creating a new department would involve.

But like with new departments, the objectives and value of a new office need to be carefully thought through. If it is created simply to send a political message, the process of establishing the new office can be a distraction like that of creating a new department, albeit on a smaller scale.

Joint ministers

Another alternative can be to create a new ministerial role that crosses two or more departments, driving them to work more closely together on a relevant issue. Joint ministerial roles can be effective in getting departments to work together – but can also lead to confusion and extra bureaucracy. Damian Green, who served as a joint minister in the Home Office and MoJ, complained that "I was required to write to myself as one minister in a department to another, demanding that something happen".[34]

Richard Harrington served as the minister for Syrian refugees under David Cameron, working with the Home Office, DfID and DCLG.[35] He created a new structure with all the relevant civil servants 'under one roof' at the Home Office, making it easier for the three departments to work together.

Where there are specific problems that cross departmental lines, joint ministers can be effective in making different parts of government work together.

Joint funds

Another alternative to rearranging departments is to create joint pots of funds that are overseen by multiple departments. One such example is the Conflict, Stability and Security Fund (CSSF), which "enables 12 government departments and agencies to address security priorities in a collaborative way".[36]

The CSSF delivers on priorities set by the National Security Council and is managed by the government's Joint Funds Unit. When issues cut across traditional departmental boundaries, rules on financial accountability can make it difficult for departments to spend money 'on each other's' policy areas; joint funds, like the CSSF, can help avoid this.

Alternatively, the prime minister may want to use mechanisms in No.10 and the Cabinet Office to focus attention on issues he or she thinks are particularly important, rather than creating a new department to do so. They may want to establish a Cabinet committee or another ministerial grouping, such as an implementation taskforce, which both Cameron and May used to drive work on issues of particular importance.[37]

These mechanisms may achieve the desired outcome without the hassle of rearranging government departments.

Have clear objectives for the department – and its ministers

Without a clear sense of what exactly the new or changed department will be responsible for, ministers and officials can end up scrabbling to agree what they need to do – rather than actually doing it.

The lack of clarity about what DIT would be delivering, and how that would interact with the wider Brexit process, for example, raised expectations around trade deals that would always have been difficult to fulfil in the first few years after the referendum. DIT officials initially expected to be negotiating new deals with trade partners around the world, but soon found themselves renegotiating existing trade deals that the UK only has access to by virtue of being an EU member state.

When deciding to merge departments, or create a new one, the prime minister must know what exactly they want the restructured organisation to do. This also applies to its ministers. Without clarity on their responsibilities, confusion will dominate the new department's staff.

Similarly, prime ministerial ambitions to tackle issues by setting up a new department should be matched with sufficient powers and control to achieve those objectives. In particular, and as the Institute has argued in the past, "if people are to be held accountable in a fair way, they must have had sufficient control over the outcomes on which they are being judged".[38]

Take time to think through the changes

The most successful reorganisations have taken place after an extensive period of engagement with those who will be affected by the change – both inside and outside of government.

DWP was created after detailed analysis of different options, trials across the country to test how the predecessor organisations could best work together, and consideration of the practical changes that would be needed to make the new department a success. Looking at the evidence before making any decisions, and taking time to work out how the new organisation can best achieve its objectives, will mean that less time is wasted after it has been announced and will help build support for the change.

Consult Parliament in any changes

Greater parliamentary oversight could be beneficial. Canada is a useful case study here: in Canada, all departmental restructures require legislation, and the Parliament in Ottawa must sign off on the prime minister's decisions. Indeed, parliamentary scrutiny of a controversial departmental reorganisation in 2005 led to the disbandment of the newly joined department the following year.

However, officials we spoke to also warned of the risk that greater parliamentary scrutiny before and during a restructuring would further complicate an already difficult process. If officials working on a restructuring have to keep Parliament abreast of that process, as well as of the work and objectives of the new or reorganised department, they will have even less time to work on the policy area(s) the organisation is supposed to dealing with.

Fully weigh up the costs and benefits

Before making any changes, the prime minister should properly assess whether the likely longer-term benefits of a new or merged department will outweigh the short-term costs of the reorganisation itself.

Even where a new or merged department has clear objectives, it will take time to get up to speed with its new responsibilities. While a prime minister can announce a new department on a Friday and expect it to exist on the Monday, it will not be running at full capacity for months, if not years. The teething pains of building the new organisation will continue to distract officials from their day jobs for a long time after the announcement is made.

That hit to productivity is a significant cost of rearranging departments. When officials are distracted, duplicating each other's work or underperforming due to low morale, they cannot work effectively on the government's new priority.

Then there are the more tangible costs of setting up a new organisation as outlined above. All of these costs should be properly quantified and weighed against the potential benefits of the proposed change.

While ministers, particularly the prime minister, make decisions about reorganising departments, it is officials who carry out the changes. Once a decision has been made, there are things officials can do to ensure the change is managed as effectively as possible.

The Cabinet Office should offer more support

To date, departmental reorganisations have been managed by whichever civil servants happened to hold senior positions in the relevant departments at the time the changes were announced. Apart from some fairly basic written guidance,[39] the Cabinet Office and the Treasury have provided no formal support to help them navigate the changes. As a result, departments have had – on each occasion – to start from scratch.

Policy officials we interviewed who were involved in the 2016 changes reported that they spent much of their time arguing about office space and IT capacity, rather than solving the policy questions of their new departments.

Previous Institute work has argued that the Cabinet Office and Treasury should provide more support to these officials, including providing access to specialists in HR, government estates, IT and other key functions.[40] A new team is now being established in the Cabinet Office to provide this sort of support for future restructures. It will not run the restructuring itself but will provide advice to the prime minister on the merits of mooted changes.

Once a decision has been made, the team will then put officials from the restructured department(s) in touch with experienced officials from across government and offer support in the implementation of the change.

This team is also intending to build and strengthen a network of civil servants from various departments who have worked on departmental restructures in the past. This is a sensible move: the network will be able to share knowledge and experience to help support officials working on future changes.

This team is a welcome addition to the Cabinet Office, and the way the civil service approaches restructures in general, and should be set on a sustainable footing so that it can continue to support departments as they face future restructures.

The Treasury should provide funding to cover upfront costs

Our analysis suggests that the upfront cost of setting up a new Whitehall policy department or a mid-sized merger will be around £15m. While this is a relatively small figure on the scale of annual day-to-day departmental spending, it can nonetheless be hard for a department to find such a sum from its existing budgets.

But the Treasury continues to argue that departmental changes should be cost-neutral and managed from within the associated departments' existing budgets – and that new departments should ask their predecessors for any necessary funding. This, though, means that departments will spend their formative months scrabbling around for funds rather than focusing on setting up the new organisation and developing policy to achieve the government's objectives.

The Treasury should recognise this and provide one-off funding for departments undergoing reorganisations.

One particular challenge for departments is that there is no clear assessment of how much the process will actually cost. The Treasury should work with departments to build a robust assessment of the costs. This would ideally cover different scales of reorganisation to be able to properly assess the costs and benefits of the changes, and to provide the correct level of support for departments.

In turn, the department's own accounting officer should be satisfied that the money allocated is spent appropriately and in accordance with the principles set out by the Treasury – and should be able to satisfy Parliament that this is the case. As the Institute has argued in the past, to achieve this there should be:

> "clear and well-documented structures that establish exactly what an individual or organisation is responsible for, and to whom they are accountable".[41]

Any new department should be clear on what it is spending, and who is accountable for this.

Support staff morale

Everyone we spoke to raised the importance of supporting staff morale. Regular, open discussions about how the reorganisations affect individuals and their roles can help staff feel informed and minimise the risk of morale suffering as a result of changes, both in political priorities organisational structure and culture.

One senior official spoke about the importance of ensuring that people identify with the new organisation – whether it is a completely new department or a reconfigured one – and have a clear sense of what they are responsible for within it. Creating a culture and an identity for restructured organisations is one important way to support staff through the changes they face. Senior management at all three of the departments established in 2016 worked on building a departmental culture through regular staff discussions and sessions aimed at telling the story of the new organisation.

Another senior official highlighted the importance of giving staff the opportunity to offer ideas on what they would like to see in the new organisation and being able to demonstrate that changes had been made in response.

As well as creating a clear identity within the department, one of our interviewees stressed the importance of working with the rest of government to ensure that there is "one version of the truth" regarding the new organisation's responsibilities. Confusion about the division of responsibilities between departments can sap morale and mean civil servants are distracted by debating who does what, rather than getting on with doing it.

Evaluate results afterwards

Prime ministers choose to restructure departments or create new ones fairly often, with Tony Blair, Gordon Brown and Theresa May all making numerous changes when they took office. Rather than treating each change as an entirely 'new problem', the civil service should build in a review of each change, so lessons are learned and processes can be improved.

To do this effectively, departments involved in future restructures – with the assistance of the new Cabinet Office team – should collect, analyse and publish information to help assess cost and benefits. To understand the direct costs involved, civil servants should collate information on the predicted and actual upfront costs, including, for example, the cost of acquiring and refurbishing office space, integrating IT and HR systems.

Departments should also gather information that would help to assess the wider impact of departmental reorganisations on civil servants' productivity. For example, to assess the impact on staff morale, departments could collate information on the rate of staff turnover in affected areas – both before the changes were announced and implemented and afterwards.

The Cabinet Office could also make greater use of individual responses to the Civil Service People Survey – digging beneath the departmental-level averages – to help understand how staff engagement is affected by reorganisations.

As well as assessing the process of creating the new or restructured organisation, it is crucial that there is sufficient data available to assess how the organisation is working when fully established and how it contributes to the government's overall objectives.[42] This would enable departments to be held to account by Parliament and others.

Conclusion

Rearranging government departments is never easy. As well as the direct financial costs of moving policy responsibilities between departments, machinery of government changes can have less tangible, longer-term effects in the form of productivity losses as officials juggle setting up the new department with their day-to-day duties.

However, there can be benefits if the changes increase focus on a particular issue or improve public service delivery. Rearranging departments can be a success if the changes are well thought through, and based on a clear objective for the new or reorganised department.

But too many reorganisations are made too quickly, either to make a political point or to solve a short-term issue. They should instead be approached like any other serious government project, with a full cost–benefit analysis and a recognition of the time needed for the new organisation to be fully functional. Otherwise, organisational changes can become an expensive distraction.

List of abbreviations

BEIS	Department for Business, Energy and Industrial Strategy
BERR	Department for Business, Enterprise and Regulatory Reform
BIS	Department for Business, Innovation and Skills
CO	Cabinet Office
DCA	Department for Constitutional Affairs
DCLG	Department for Communities and Local Government
DCMS	Department for Culture, Media and Sport
DCPC	Department of Prices and Consumer Protection
DCSF	Department for Children, Schools and Families
DECC	Department of Energy and Climate Change
Defra	Department for Environment, Food and Rural Affairs
DETR	Department of the Environment, Transport and the Regions
DExEU	Department for Exiting the EU
DfE	Department for Education
DfEE	Department for Education and Employment
DfES	Department for Education and Skills
DfID	Department for International Development
DfT	Department for Transport
DfSS/DSS	Department for Social Security
DH	Department of Health
DHSC	Department of Health and Social Care
DIT	Department for International Trade
DIUS	Department for Innovation, Universities and Skills
DNH	Department of National Heritage
DTI	Department of Trade and Industry
DTLR	Department for Transport, Local Government and the Regions
DWP	Department for Work and Pensions
FCO	Foreign and Commonwealth Office
HMT	Her Majesty's Treasury
HO	Home Office
MHCLG	Ministry of Housing, Communities and Local Government
MoD	Ministry of Defence
MoJ	Ministry of Justice
ODM	Ministry of Overseas Development
ODPM	Office of the Deputy Prime Minister
OPS	Office of Public Service
OPSS	Office of Public Service and Science

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