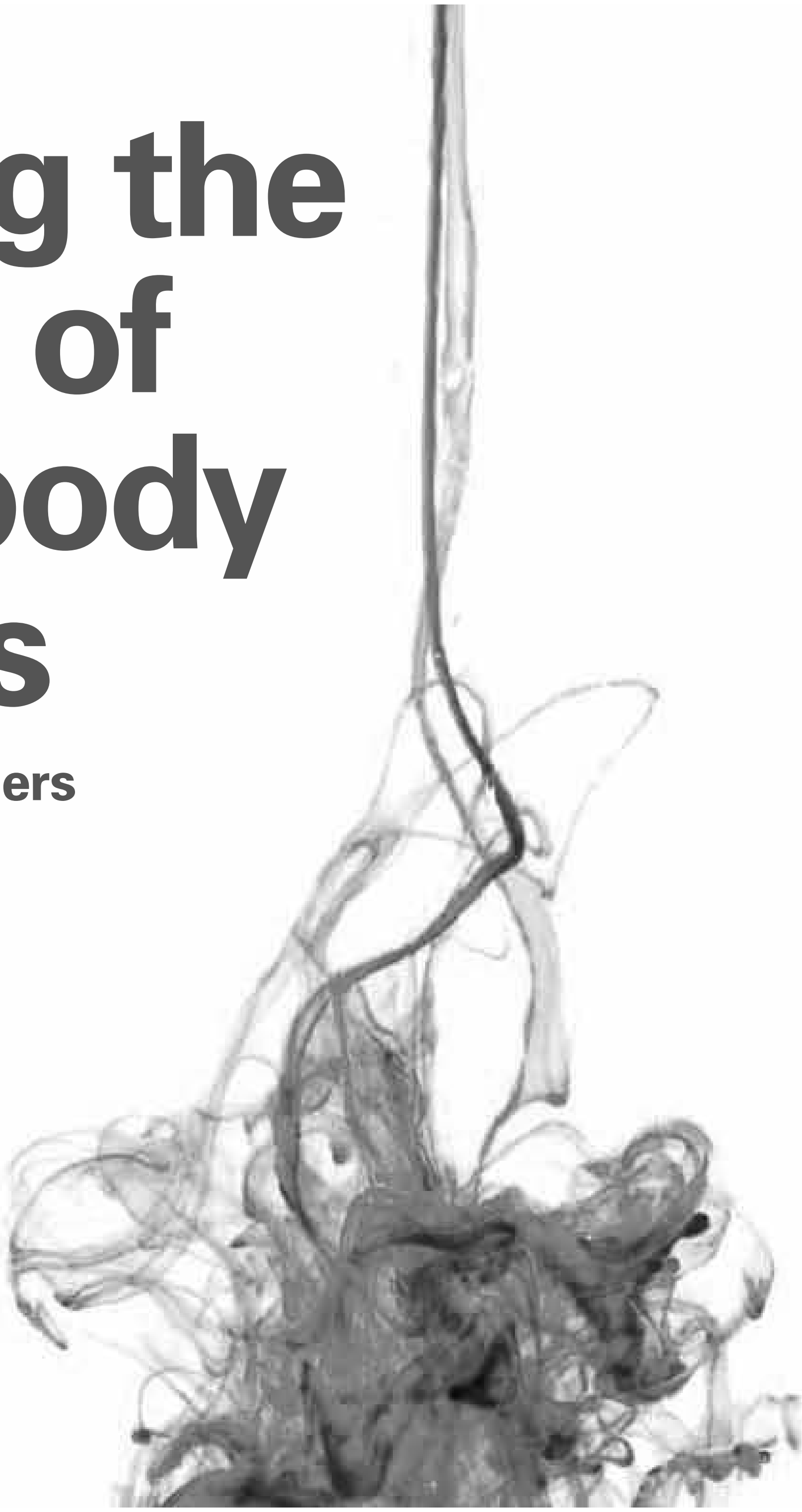
Learning the lessons of public body mergers

Review of recent mergers



AUDIT SCOTLAND

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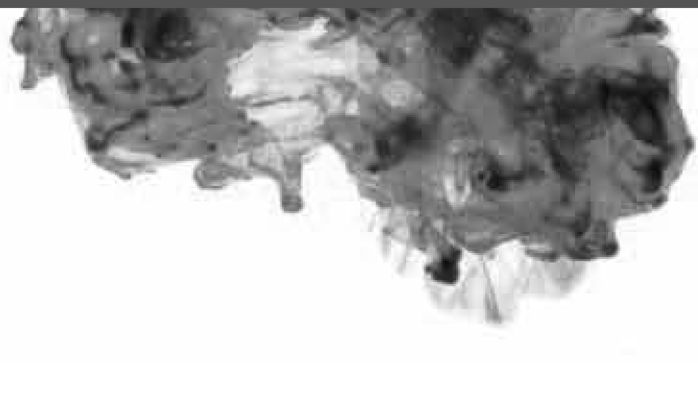
June 2012



Auditor General for Scotland

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Summary

Mergers are complex. They need strong, strategic leadership from the outset.

Introduction

1. In 2007, the Scottish Government set out its intention to deliver a clearer, simpler and more effective public sector. It introduced a simplification programme aimed at reviewing and simplifying Scotland's landscape of public bodies and set a target to reduce the number of national public sector organisations by 25 per cent by 2011.[1] By December 2011, the number of public bodies had decreased by 28 (14 per cent) as a direct result of the simplification programme.[2] This included 18 mergers, some of which created new organisations (eg, Creative Scotland) and some of which transferred public bodies into existing organisations (eg, the Deer Commission for Scotland transferred into Scottish Natural Heritage) (Appendix 1).

2. The public bodies involved in these mergers and transfers varied in size, budget and remit, and some changes were more complex than others. Around half of the changes required legislation, such as the Public Services Reform (Scotland) Act 2010, to abolish, transfer or merge bodies. Although mergers were challenging to implement, the Scottish Government expected the benefits to outweigh the costs and disruption.

3. The changes made through the simplification programme were intended to:

- create simpler structures and more effective public services delivering better value for money
- improve transparency, decision-making, and collaboration and joint working between public bodies.

About our audit

4. Our audit was a review of mergers and not an examination of the simplification programme. Of the 18 mergers since 2008, our audit identified lessons learned from a sample of nine, to help inform the planning and implementation of future mergers. We carried out a detailed examination of four mergers (Exhibit 1) and a document review of

Exhibit 1
Mergers we examined in detail
As part of this audit we carried out a detailed examination of four mergers, which varied in size, approach and complexity.

Organisation	Date of merger	Merged from	Operating budget[1] (2011/12)	Estimated costs of merger[2]	Estimated savings of merger[2]
			£ million	£ million	£ million
Skills Development Scotland (new non-departmental public body)	April 2008	• Scottish University for Industry • Careers Scotland • Skills sections of Scottish Enterprise and Highlands and Islands Enterprise	181	20	77
Marine Scotland (became part of the Scottish Government)	April 2009	• Scottish Fisheries Protection Agency • Fisheries Research Service • Scottish Government Marine Directorate	56	1	4.3
Creative Scotland (new non-departmental public body)	July 2010	• Scottish Arts Council • Scottish Screen	50 (+ 25 lottery funding)	3.3	4.9
Care Inspectorate[3] (new non-departmental public body)	April 2011	• Social Work Inspection Agency • Most of the Care Commission • Some functions of HM Inspectorate of Education	23 (+ 12 income from fees)	5.6	6.2
Total			**347**	**29.9**	**92.4**

Notes:
1. Budget figures are from the *Scottish spending review 2011 and draft budget 2012-13*, Scottish Government, September 2011. Budget figures for Creative Scotland are from its Corporate Plan 2011–14.
2. Estimated costs and savings for Skills Development Scotland and Marine Scotland are over the first five years (*Public services reform: simplification and improvement update*, Scottish Government, May 2009). Estimated costs and savings for Creative Scotland and the Care Inspectorate are over the first four years (*Public Services Reform (Scotland) Bill: Financial Memorandum*, May 2009). Part 3 of the report provides more information.
3. The Care Inspectorate was established in legislation as Social Care and Social Work Improvement Scotland (SCSWIS).
Source: Audit Scotland

1 This target was measured against a baseline of 199 public bodies in October 2007. The target did not include the reduction of 26 Justice of the Peace Advisory Committees, taken forward by the previous administration, which came into effect in December 2007.
2 The Scottish Government aims to implement reforms set out in the Children's Hearings (Scotland) Act 2011 during 2012/13, replacing 32 Children's Panel Advisory Committees with a single national Children's Panel. This will reduce the total number of public bodies by 59 (30 per cent).

a further five.[3] The four mergers we examined in detail accounted for most of the estimated costs (88 per cent) and estimated net savings (79 per cent) of the reduction in public bodies taken forward through the wider simplification programme.

5. We looked at how well these mergers were planned and implemented, reviewed available information on estimated and actual costs and savings, and assessed the impact of mergers on the organisations' performance, where known. Appendix 2 of this report sets out our audit methodology and provides more information on all the mergers examined.

6. Appendix 3 lists the members of our advisory group, who shared their knowledge of mergers with us and provided independent challenge at key stages of the audit.

7. Our report is in four parts:

- Leadership and governance (Part 1).
- Planning and implementing mergers (Part 2).
- Costs and savings (Part 3).
- Measuring performance (Part 4).

8. More mergers of public bodies in Scotland are expected, including the move to single police and fire and rescue services, and changes in the further education sector. It is important that these mergers benefit from the knowledge, experience and good practice of previous mergers.

9. In addition to this report, we have prepared a good practice guide to help the Scottish Government and public bodies plan and implement mergers effectively. It includes case studies and good practice examples, and is available on our website.[4]

Key messages

- Mergers need strong, strategic leadership from the outset. In some cases, the absence of permanent leaders early in the planning and implementation stages meant that some important decisions were deferred and key elements such as the long-term vision, objectives and structure were not well developed when the new body began to operate.
- Most mergers were implemented on the date set by the Scottish Government and generally merging bodies and their stakeholders understood the broad purpose of mergers. However, objectives set in the planning stage for the mergers were very broad and more attention should have been given to how organisations would develop after the merger. Benefits planning was weak and consequently there was little focus on when the new organisations would start to deliver the expected benefits.
- The four mergers we examined in depth were expected to make net savings of around £63 million over the first four to five years. These estimates were based on broad assumptions and were not revised as mergers proceeded. The reported £42 million merger costs incurred so far for these four mergers are higher than the £30 million initially forecast. However, it is not possible to confirm the total costs and savings of mergers accurately because reported costs are likely to be under-estimates and there was inadequate analysis of savings and efficiencies. However, mergers have led to significant workforce changes and reductions in staff costs.
- For many mergers, it is too early to see performance improvements. However, the weaknesses in performance measures and baseline information will make it difficult for merged bodies to demonstrate the impact of changes in the way they deliver services.

Key recommendations for future mergers

The Scottish Government should:

- appoint the permanent chair and chief executive at the earliest possible opportunity – ideally at least six months before the start date of the new organisation – to allow them to progress important decisions and contribute to establishing a clear and strong vision, structure and plan for the new organisation
- identify the skills, knowledge and expertise needed to lead the new organisation and, with merging bodies, use this to assess – and if necessary supplement – board and senior management capability
- identify, when planning the merger, the specific improvements it expects each merged body to deliver and the criteria it will use to assess this
- develop robust cost and savings estimates for future mergers and, with merging bodies, regularly review and revise these as necessary as the merger proceeds.

3 These five mergers were Education Scotland, Healthcare Improvement Scotland, National Records of Scotland, Scottish Natural Heritage (absorbed the Deer Commission for Scotland) and the Commission for Ethical Standards in Public Life in Scotland.

4 *Learning the lessons of public body mergers: good practice guide*, Audit Scotland, June 2012. http://www.audit-scotland.gov.uk

Merging bodies should:

- ensure merger plans extend beyond the start date of the new body – to ensure business as usual continues and to plan for subsequent organisational development that is sufficient, effective and focused on delivering improvements
- schedule a post-implementation review within six months of the start date of the new body to identify lessons learned, monitor progress in meeting the strategic aims and objectives, and assess if the merger is on course to deliver the long-term benefits. The results of the review should be reported to the Scottish Government to support wider learning and sharing of lessons
- develop and adopt a corporate plan for the new organisation within 12 months of its start date. The plan should provide a strong, strategic focus on the purpose and benefits of establishing the new organisation and the further organisational change and development that is required to secure these benefits
- develop performance reporting systems and key performance indicators that measure the benefits expected from the merged body and aim to publicly report performance information no more than two years after the start date of the new body
- collect views from users, staff and stakeholders on performance and use this to measure improvement and influence service delivery.

Part 1. Leadership and governance

Strong and permanent leadership is required as early as possible to make decisions on priorities, resources and the strategic direction of the new organisation.

Key messages

- Mergers need strong, strategic leadership from the outset. In some cases, the absence of permanent leaders early in the planning and implementation stages meant that some important decisions were deferred and key elements such as the long-term vision, objectives and structure were not well developed when the new body began to operate.
- After a slow start in most cases, the boards of merged bodies are developing stronger governance arrangements.

Strong, strategic leadership is needed from the outset of a merger

10. Planning and implementing mergers is complex. Strong and permanent leadership is required from as early as possible in the planning stages to make important decisions on priorities, resources and the strategic direction of the new organisation. Those leading the mergers have to address many challenging issues, such as setting the strategy for the new organisation, establishing a governance and management structure, identifying and managing risks, and bringing staff together within a single organisational culture (Exhibit 2, overleaf).

11. Scottish Government officials were responsible for delivering mergers on time and ensuring that functions, staff and budgets transferred to merged bodies by the date agreed with Scottish ministers. They did this by setting up programme boards, accountable to Scottish ministers and comprising senior officials from the Scottish Government and the merging bodies, to oversee each merger. Subgroups often supported the programme boards by leading on aspects of the detailed planning and implementation.

12. The leadership teams in the new bodies (the chair and board, chief executive and senior managers) were responsible for developing the long-term vision, structure and strategic direction of the organisation. They had to ensure that the merged body continued to deliver business as usual while managing the transition into a new organisation. It is difficult to maintain the enthusiasm, commitment and goodwill of stakeholders – including service users and staff – if there is uncertainty about the purpose of the merger or its outcomes. Leaders therefore needed to balance their time between developing operational aspects of the merger and ensuring staff and stakeholders understood the purpose of the merger and were engaged and motivated. In addition to formal engagement with unions, merging bodies kept staff informed through face-to-face meetings, written updates and staff-wide events.

Permanent chairs and chief executives were appointed late in some mergers

13. We recommend that the permanent chair and chief executive are appointed at the earliest possible opportunity – at least six months before the start date of the new organisation – to allow time for them to progress important decisions. Our recommended timeline for the appointments process is shown in Exhibit 1 of the good practice guide on our website.

14. We examined four mergers where a new chair was appointed (the Care Inspectorate, Creative Scotland, Healthcare Improvement Scotland and Skills Development Scotland). Three of the remaining five mergers did not appoint a new chair as they are advisory boards and are chaired by the chief executive (or equivalent).[5] For the other two cases, the Commission for Ethical Standards in Public Life in Scotland does not have a board and the chair of Scottish Natural Heritage continued as chair after its merger with the Deer Commission for Scotland.

15. Where new chairs were appointed, the Scottish Government used the public appointments process. This involved a selection panel consisting of senior Scottish Government officials and an assessor from the Commission for Ethical Standards in Public Life or its predecessor.[6] After assessing applications and interviewing shortlisted candidates, the panel recommended those it considered suitable for appointment to the relevant Scottish minister, who decided whom to appoint.[7] All chairs were appointed by the start date of the new organisation, although in two cases this was only two months or less before the start date (Exhibit 3, page 9).

16. The Scottish Government also used the public appointments process to appoint non-executive board members in the four bodies. Appointments included board members from predecessor bodies and new members to increase the range of knowledge and experience available to the new boards. These board members took up their new roles around the start time of the new organisation.

5 These three bodies are Education Scotland, Marine Scotland and National Records of Scotland. Advisory boards comprise non-executive directors who provide support and advice, but have no role in holding the chief executive to account for the organisation's performance.
6 The Commission for Ethical Standards in Public Life in Scotland was formed in April 2011 from the merger of the offices of the Commissioner for Public Appointments in Scotland and the Scottish Parliamentary Standards Commissioner.
7 *The role of boards*, Audit Scotland, September 2010.

Exhibit 2

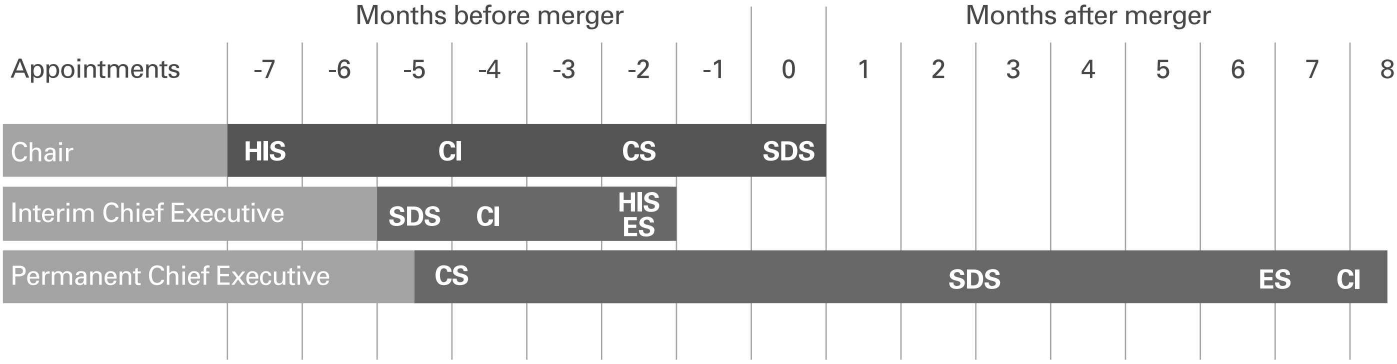
Challenges in leading mergers successfully

There are a number of issues for those leading a merger to address.

Issues for the Scottish Government to address	Issues for merging bodies to address
Setting the strategy for the new organisation in line with government policy	
• Setting a clear and realistic timetable for the merger • Developing any necessary legislation and receiving parliamentary approval for it • Clearly communicating the rationale for the merger to merging bodies and stakeholders • Identifying the expected benefits of the merger and how they will be measured and reported • Scrutiny and challenge	• Putting a vision in place for the new body • Identifying a good structure for the new body and a plan to make it happen • Developing specific strategic objectives • Focusing on maintaining and improving services during and after merger • Developing and adopting effective performance measurement and reporting systems
Establishing a governance and management structure	
• Appointing the chair and board • Appointing the chief executive where this is not the responsibility of the merging bodies • Promoting sound governance and accountability • Promoting links between the new body and its partners	• Ensuring sound board-level governance is established and maintained, including sufficient emphasis on risk • Appointing the chief executive and a capable senior management team, with clear roles and responsibilities, and ensuring their effectiveness
Establishing an effective staffing structure	
• Identifying the estimated costs of changes to staffing structures and terms and conditions • Scrutiny and challenge	• Identifying the right skills and people needed to deliver services • Transferring staff and matching them to roles in the new body • Workforce planning, including design of schemes to allow staff to leave the organisation voluntarily (eg, through early retirement or voluntary redundancy) • Negotiating changes to terms and conditions (eg, pay, pensions, relocation) • Providing induction and other training and reskilling when needed
Establishing a single distinctive organisational culture	
• Promoting shared goals	• Breaking down barriers between predecessor organisations • Communicating the values and objectives for the new body to staff and stakeholders • Ensuring staff are engaged and motivated throughout the change • Promoting shared goals
Managing finances	
• Setting and transferring the budget for the new body • Identifying and reporting expected costs of the merger and expected efficiency savings • Scrutiny and challenge	• Matching the new body's priorities to the available resources and securing value for money • Identifying, managing and reporting actual costs of the merger • Planning, delivering and reporting actual efficiency savings • Aligning financial systems from predecessor organisations • Asset management and disposal (ie, property, vehicles, IT equipment)
Communication and engagement	
• Keeping all interested parties informed of developments and allowing them to express their views	• Keeping all users, staff and other stakeholders informed of developments and allowing them to express their views

Source: Audit Scotland

Exhibit 3
Timing of the appointment of chairs and chief executives in new organisations
Most chairs were appointed before mergers took place, but most permanent chief executives were appointed after the organisation's start date.



CI Care Inspectorate
CS Creative Scotland
ES Education Scotland
HIS Healthcare Improvement Scotland
SDS Skills Development Scotland

Notes:
1. As at 31 May 2012, a permanent chief executive had not been appointed to Healthcare Improvement Scotland.
2. Chair and chief executive appointments were not required for the Commission for Ethical Standards in Public Life in Scotland, Marine Scotland, National Records of Scotland and Scottish Natural Heritage. Education Scotland has an advisory board chaired by the chief executive.
Source: Audit Scotland

17. Interim or permanent chief executives were appointed in five bodies using an open competition (the Care Inspectorate, Creative Scotland, Education Scotland, Healthcare Improvement Scotland and Skills Development Scotland). In four of the five cases, there were difficulties or delays in making permanent appointments (Exhibit 3):

- The programme board for the Care Inspectorate initially planned to appoint a permanent chief executive by September 2010 (seven months before the new organisation started operating in April 2011). However, difficulties in the appointments process led to the appointment of an interim chief executive in December 2010. The permanent chief executive was appointed in November 2011 (14 months later than planned), and took up post in February 2012.
- In the case of Skills Development Scotland, the director of the Scottish Government programme board acted as interim chief executive for eight months. This was because the merger timescale was too short to allow the permanent chief executive to be appointed until June 2008, two and a half months after the new body was established.
- Due to the timescales for the Education Scotland merger (eight months from announcement to start date in July 2011), the programme board decided to appoint a transitional chief executive for up to one year to oversee development of the new body and ensure business continuity. An interim appointment was made two months before the new organisation began operating and was made permanent eight and a half months later.
- The post of chief executive for Healthcare Improvement Scotland was advertised eight months before the new body was established. However, no permanent appointment was made and an interim chief executive took up post from the start date of the new organisation (April 2011). As at May 2012, a permanent appointment had not been made.

18. However, the permanent chief executive, chair, board and senior management team were all appointed in advance of Creative Scotland's merger. In December 2008, the Scottish Government established a company (Creative Scotland 2009 Ltd) to implement the merger. The company appointed the chief executive designate four and a half months before Creative Scotland was established through legislation (in July 2010). This created some additional costs, as the chief executive designate was being paid at the same time as the chief executives of the two predecessor organisations. However, the arrangement allowed the new permanent chief executive to have a significant role in both developing the strategic direction and structure of the new organisation and in appointing the senior management team before Creative Scotland began operating. For more information on Creative Scotland see Case study 1 in the good practice guide on our website.

19. Where chair and chief executive appointments were made late, this was due to a combination of factors, which included:

- the public appointments process, which as we previously reported, took up to six months to complete an appointment[8]
- the need to link appointments with the legislative process (as, properly, new public bodies cannot incur expenditure until the legislation establishing them has received Royal Assent)
- a lack of interest from suitable candidates in some posts.

20. All merging bodies transferred senior managers from predecessor organisations and matched them to posts within the new organisational structure. This created difficulties for some bodies, as staff were transferred before a clear structure for the new organisation had been developed. For example, some senior managers initially transferred into an interim structure in Skills Development Scotland. The organisation agreed a revised structure for the senior management team five months after the merger, and the team were all appointed within seven months (by November 2008). However, this delayed the start of recruitment to the next tier of managers, which, because of the number of staff involved, was not completed for another 18 months.

Late leadership appointments hampered the implementation of some mergers

21. To successfully implement mergers, several workstreams must be taken forward simultaneously. It is important that the teams responsible for each element work together to ensure that all aspects of the merger are well coordinated.

22. Overall, programme boards ensured that mergers were implemented on the original date set by the Scottish Government and had support from stakeholders. However, the other vital work of creating the long-term vision for the new organisation and designing its structure and strategic objectives received less attention. Responsibility for these tasks should lie with those leading the organisation going forward. However, the leaders often were not in place to progress the strategic decisions required at an early stage and, in some cases, the drive to set the direction of the new organisation appeared weak. In the mergers we examined, these factors affected the planning and implementation stages and resulted in:

- important decisions being delayed. For example, the late appointment of a chief executive for the Care Inspectorate delayed both the finalisation of the staff structure and a review of salary scales for staff in the new body. The Care Inspectorate had initially planned to finalise its staffing structure by October 2010 (assuming that the chair and chief executive were appointed on time) but there was insufficient time to complete this task pre-merger. Salary scales were not reviewed pre-merger either; the Care Inspectorate's predecessor bodies each employed 'inspectors' carrying out a range of different tasks. However, the salaries paid to those at inspector level within the predecessor bodies differed significantly. As there was insufficient time to evaluate these jobs before the merger, the Care Inspectorate introduced new job titles to differentiate between those on inspector grades and pay differences have been maintained
- new organisations not developing their long-term vision and strategic objectives before the start date, leading to unnecessarily long transition periods. For example, while Skills Development Scotland approved options for the delivery of its proposed new business model within six months of its start date, it did not publish its first corporate plan with goals, strategies and plans to measure progress until almost two years after it began operating. In contrast, Creative Scotland's leadership team developed a clear direction and set of strategic objectives as a priority and published the first corporate plan eight months after the organisation was established.

After a slow start, boards are developing stronger governance

23. Boards must ensure that:

- public money is spent wisely and according to the rules (defined in legislation and detailed in letters of appointment from the Permanent Secretary to board chairs or other accountable officers)
- risk, financial management and performance are properly scrutinised
- organisational strategy and performance is in line with the policies and priorities of Scottish ministers. Boards do this by setting the organisation's strategic direction; ensuring that the organisation is meeting its objectives; and monitoring, challenging and supporting management in its day-to-day work.

8 *The role of boards*, Audit Scotland, September 2010.

24. In the four mergers we examined in depth, boards were beginning to make progress in these areas after what was, for most, a slow start. For example, the Care Inspectorate Board oversaw a major and unforeseen change in the organisation's strategy and approach, as the Scottish Government required it to increase some inspection activities. The Skills Development Scotland Board became involved early on in dealing with legacy and operational issues such as budget transfers, inherited equal pay claims and pension scheme rationalisation. These issues took the boards' attention away from carrying out their wider governance tasks fully, such as scrutinising performance.

25. Over time, boards have established stronger accountability arrangements and better committee structures; and reviewed and enhanced members' skills, experience and knowledge. For example:

- fifteen months after it was established, Marine Scotland appointed two external non-executives to provide independent challenge to its board (which up to that point comprised only the senior management team). Initially the non-executives only attended quarterly 'strategic' board meetings, but since the start of 2011 they have been attending board meetings on a monthly basis. At the same time as appointing the external non-executives, the board invited the Director of Human Resources from the Scottish Government to attend board meetings to provide specialist advice and support

- the Skills Development Scotland Board implemented changes to bring in new skills and improve its effectiveness following a review in 2009. It appointed four new board members in April 2010 and created a new board and committee structure with clearer terms of reference (for more information see Exhibit 2 and paragraphs 25 and 26 of the good practice guide on our website).

26. However, boards in merged bodies still face difficulties in exercising their challenge role. Most of the merged bodies have now developed a vision and strategy. But, as we report in Part 4, work is still ongoing to develop performance information that supports and demonstrates progress towards achieving each organisation's objectives. Boards of merged bodies are not yet receiving this information, which they need to allow them to fulfil their scrutiny role.

Recommendations

The Scottish Government should:

- appoint the permanent chair and chief executive at the earliest possible opportunity – ideally at least six months before the start date of the new organisation – to allow them to progress important decisions and contribute to establishing a clear and strong vision, structure and plan for the new organisation

- work together with organisations' leadership teams to progress different aspects of the merger in a cohesive way

- identify the skills, knowledge and expertise needed to lead the new organisation and, with merging bodies, use this to assess – and if necessary supplement – board and senior management capability.

Merging bodies should:

- develop and adopt a corporate plan for the new organisation within 12 months of its start date. The plan should provide a strong, strategic focus on the purpose and benefits of establishing the new organisation and the further organisational change and development that is required to secure these benefits.

Part 2. Planning and implementing mergers

Merger plans focused on delivering the mergers by the date set, but most did not reflect how organisations would develop after the merger.

Key messages

- Generally, merging bodies and their stakeholders understood the broad purpose of mergers. However, objectives set in the planning stage for the mergers were very broad. Benefits planning was weak and consequently there was little focus on when the new organisations would start to deliver the expected benefits.
- Most mergers were implemented on the date set by the Scottish Government, but more attention should have been given to how organisations would develop after the merger.
- Opportunities to learn and share lessons from mergers were missed.

27. Thorough planning is essential to the successful delivery of mergers. Mergers have four key stages extending from before the start date of the new organisation (Exhibit 4). Those responsible for delivering mergers need to consider and plan for all of these stages from the outset.

The Scottish Government provided support and guidance to those implementing mergers

28. As well as establishing programme boards to oversee mergers, the Scottish Government provided direct support to public bodies and through the relevant sponsor teams (the staff that manage the day-to-day relationship between the Scottish Government and individual bodies). Scottish Government human resource, finance and legal teams were available to provide more specialist advice. Where legislation was needed, the Scottish Government also provided estimated costs and savings for the Scottish Parliament to consider.

Exhibit 4

Key merger stages

There are four key stages to a merger.

Planning

- Specifying the key tasks, and identifying and managing risks, to allow the merger to take place and ensure that it fulfils its potential.

Implementation

- Carrying out tasks in the plan to achieve the merger and merger benefits.
- Reviewing and updating the risk register and transferring ownership of risks to the new body.

Integration

- Bringing the systems and services of predecessor bodies together.
- Removing divisions and developing a single culture around a shared understanding of the aims of the new organisation.

Realising benefits

- Translating the changes resulting from the merger into expected and unexpected benefits.

Source: Audit Scotland

29. In June 2008, the Scottish Government's simplification team produced written guidance to support programme boards, sponsor teams and merging bodies to plan and implement mergers.[9] This was designed to achieve consistency in the way mergers were implemented; it outlined project management processes to follow and issues to consider when planning and monitoring the progress of a merger (for more information see Appendix 2 of the good practice guide on our website). The guidance was full and detailed and provided a helpful framework for making decisions about mergers. However, it was up to individual teams leading mergers to decide how much they used the guidance. In the nine cases we examined, the guidance was not fully adopted. For example, business cases were not as comprehensive as the guidance recommended and only Marine Scotland received regular independent reviews of its merger process.

Specific objectives and clearly articulated benefits for mergers were not set at the planning stage

30. The general aim of all the mergers was to improve the delivery of public services and create more streamlined and efficient organisations. The Scottish Government set out the high-level aims for individual mergers in business cases and parliamentary bills (Exhibit 5, overleaf). It consulted with interested parties about the proposed changes and generally stakeholders understood and supported the purpose of each merger and the high-level aims.

9 *Simplification programme implementation guidance*, Scottish Government, June 2008. It should be noted that in the case of Skills Development Scotland, key decisions about the merger were made before the guidance was published.

31. Although the Scottish Government intended that mergers would help streamline activity and provide better services, the advance planning provided no clear criteria against which to assess whether merged bodies were meeting these aims.

32. Without clarity from the Scottish Government on what success would look like, it was difficult for merging bodies to identify the benefits expected from the merger or set specific objectives for the new organisation. In the four mergers we examined in depth, the focus was on managing business as usual and progressing operational aspects, such as transferring staff and setting budgets. In most cases, merging bodies either did not consider how the service improvements expected from the merger would be realised or develop a clear approach to measure the effect of changes on service delivery.

33. The absence of specific objectives, clearly articulated benefits and success measures for mergers makes it difficult for the Scottish Government and merged bodies to demonstrate that they have:

- fully met the aims for each merger
- delivered the benefits and improvements expected.

Exhibit 5
The Scottish Government's high-level aims for individual mergers
The Scottish Government expected individual mergers to help streamline activity and provide better services.

Care Inspectorate	To create a cohesive, more proportionate and risk-based system for the improvement and scrutiny of social services, delivering real benefits to service providers and improved outcomes for people.
Creative Scotland	To establish a single national body to support the art and culture sector, which has a clear overview of the breadth of arts and cultural practice in Scotland.
Marine Scotland	To provide better integrated marine planning, policy and management.
Skills Development Scotland	To establish a body that will: • be a catalyst for real and positive change in Scotland's skills performance • help individuals to realise their full potential • help employers be more successful through skills development • work in meaningful partnership to enhance Scotland's sustainable economic development.

Source: *Public services reform: simplification and improvement update*, Scottish Government, May 2009

Most mergers were implemented in line with the target date

34. The Scottish Government set the date for most mergers, taking account of any necessary legislative processes and Scottish ministers' aspirations for the establishment of the new organisation. In some cases this led to challenging delivery schedules, for example less than seven months was allowed to plan and implement the Skills Development Scotland merger.

35. Of the nine mergers we examined, seven were implemented on the original date set by the Scottish Government. The elapsed time from the merger being announced to the start date of the new body ranged from four months to 42 months (Exhibit 6). Mergers that did not require legislation were implemented more quickly.

36. The formation of Creative Scotland spanned four years. The Scottish Executive originally proposed to establish Creative Scotland through the draft Culture (Scotland) Bill in 2006.[10] After considering responses to the consultation on this document, the new administration presented the Creative Scotland Bill to the Scottish Parliament in March 2008. However, members of the Scottish Parliament expressed serious concerns over the reliability of the financial memorandum accompanying the Bill and the Bill fell in June 2008. Subsequently, the Public Services Reform (Scotland) Act 2010 established Creative Scotland, which began operating on 1 July 2010.

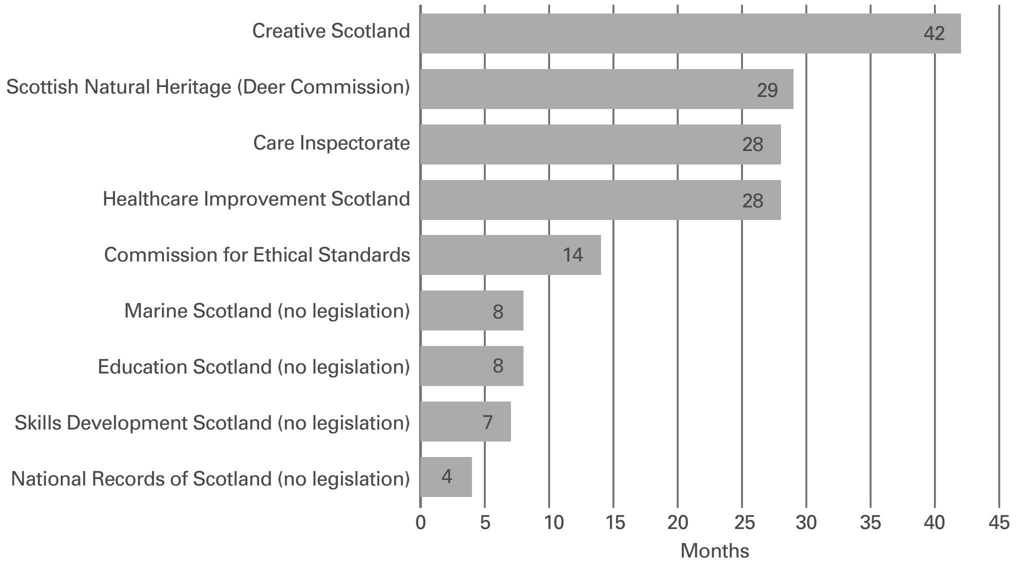
37. The delay in establishing Creative Scotland brought some disadvantages: it was unsettling for staff and stakeholders, as initially it was not clear when the merger would

10 *Draft Culture (Scotland) Bill: consultation document*, Scottish Executive, December 2006.

Exhibit 6

Elapsed time from merger announcement to start date of new body

The time to implement the nine mergers we examined ranged from four months to almost four years. Mergers that did not require legislation were implemented more quickly.



Note: The 42 months for the Creative Scotland merger span from the initial proposal in the draft Culture (Scotland) Bill in December 2006 to its establishment through the Public Services Reform (Scotland) Act on 1 July 2010.
Source: Audit Scotland

happen or what impact it would have on them. This affected staff morale and created negative stakeholder perceptions of the merger. However, the merger team made use of the time available to plan and develop the merger in advance of the organisation's start date. In particular, the appointment of the permanent leadership of the organisation in early 2010 assisted Creative Scotland's subsequent development.

38. The transfer of the Deer Commission for Scotland into Scottish Natural Heritage was taken forward through the Public Services Reform (Scotland) Act 2010. Although the merger was announced in January 2008, the legislative process dictated the implementation schedule, and so it did not happen until August 2010. This was one month later than planned, due to changes in the timetable for the Public Services Reform Bill gaining Royal Assent.

Implementation plans were too short term

39. Merger teams developed and monitored risk registers throughout the implementation of mergers. Potential risks identified included poor stakeholder engagement, disruption to staff and users, delays in the legislative process, and risks relating to financial, human resource, accommodation and IT issues. Merger teams also developed implementation plans to manage workstreams and set out the broad timeline and key milestones of a merger. This helped them to coordinate their work, monitor progress, and identify and address any slippages or potential risks.

40. In all the mergers we examined, project teams produced detailed merger plans that included relevant workstreams. The plans focused on delivering the mergers by the date set by the Scottish Government, but most plans did not reflect how organisations would develop after the merger or when they would start to deliver the specific benefits expected of them. Without detailed planning in advance of the merger, staff in new bodies were unclear what was expected of them and how and when they would deliver services differently. For example, during its first year, the Care Inspectorate carried out the inspection programmes agreed by ministers in its annual plan. Its inspections adopted some new ways of working, such as less frequent and intense inspections of well-performing services. However, the approach was otherwise transitional and the Care Inspectorate now plans to move to a new, more streamlined and fully integrated approach to inspection over three years.

41. Other shortfalls in planning included:

- important information on performance not being transferred to new organisations from predecessor bodies – meaning that plans and budgets may have been based on incomplete information and some organisations do not have the information needed to assess if performance has improved

- not identifying all relevant human resource issues prior to the merger – leading to unanticipated problems and extra cost for some merging bodies

- poor communication plans – undermining staff, user and stakeholder engagement and support for some mergers.

42. Some of the decisions taken early in the planning stage had unexpected consequences for the merged organisation subsequently. For example, there was only a short time to establish Skills Development Scotland and consequently it continued to use some corporate services from its predecessor organisations on an interim basis. These included services for human resources, accounting, IT and accommodation/facilities management. In 2008/09 and 2009/10, Skills Development Scotland faced many challenges to integrate the work of its four predecessor organisations but some of its corporate services did not provide a sufficient or cost-effective basis for long-term working. It took two years for Skills Development Scotland to establish corporate services in all these areas that matched the needs of the new organisation.

Opportunities to share lessons from mergers have been missed

43. Scottish Government guidance suggests that mergers with significant or moderate risks and complexities should be subject to independent review at key points in their development.[11] The purpose of these reviews is to provide assurance that merger planning is properly conducted (or identify how it can be improved if needed) and ultimately to ensure successful delivery.

44. Marine Scotland was the only organisation we examined that had regular independent reviews during the merger process – ten months before the merger, eight months after the merger and two and a half years after the merger. These reviews highlighted opportunities for improvement and included recommendations on areas such as strategic planning, communication and governance, most of which were taken forward by the Marine Scotland Board.

45. Some post-implementation reviews were conducted. The Scottish Government Lifelong Learning Directorate undertook a review four months after the Skills Development Scotland merger. Also, there was a review on the delivery of the Care Inspectorate and Healthcare Improvement Scotland mergers two months after the bodies were established. This review identified lessons learned, including the need for a clear vision, strong leadership, an achievable timetable and a comprehensive project plan with strong risk management arrangements (for more information see Case study 3 in the good practice guide on our website). Both reviews were carried out in the first few months of the new organisations and concentrated on how well the mergers were planned and implemented. However, the results were not widely disseminated.

46. Generally, reviews were rarely completed and review findings were not shared with other merging organisations. Limiting the use of independent reviews during and after mergers is a missed opportunity to learn lessons, as mergers often face similar challenges when, for example, transferring staff and establishing new management structures.

Recommendations

The Scottish Government should:

- identify, when planning the merger, the specific improvements it expects each merged body to deliver and the criteria it will use to assess this

- ensure that predecessor bodies provide those involved with the merger with the information and assistance they need to manage staff transfers and develop finance and performance measurement systems

- ensure that lessons from individual mergers are shared with those in the Scottish Government and public bodies starting a merger process.

Merging bodies should:

- ensure merger plans extend beyond the start date of the new body – to ensure business as usual continues and to plan for subsequent organisational development that is sufficient, effective and focused on delivering improvements

- schedule a post-implementation review within six months of the start date of the new body to identify lessons learned, monitor progress in meeting the strategic aims and objectives, and assess if the merger is on course to deliver the long-term benefits. The results of the review should be reported to the Scottish Government to support wider learning and sharing of lessons.

11 *Simplification programme implementation guidance*, Scottish Government, June 2008.

Part 3. Costs and savings

Clear, reliable and up-to-date information on costs and savings allows public bodies to monitor, control and be accountable for the costs of the merger.

Key messages

- The four mergers we examined in depth were expected to make net savings of around £63 million over the first four to five years. These estimates were based on broad assumptions and were not revised as mergers proceeded.
- It is not possible to confirm the total costs and savings of mergers to date. The reported £42 million merger costs incurred so far for these four mergers are higher than the £30 million initially forecast but are likely to be under-estimates because reporting concentrated on staff costs. While the costs involved in workforce restructuring have been higher than first expected, they have allowed significant reductions in staff costs. However, there was inadequate analysis of savings and efficiencies.

47. Clear, reliable and up-to-date information on costs and savings is important during mergers. It allows public bodies to monitor, control and be accountable for the costs of the merger, to budget and plan future service delivery and identify opportunities to make cost reductions and savings.

Initial cost and savings estimates were based on broad assumptions

48. A range of potential costs and savings contribute to determining the affordability and value for money of a merger. Merging bodies may experience a number of different types of costs and savings (Exhibit 7).

49. The Scottish Government may also make some savings through mergers. It may need fewer sponsor relationships when bodies merge and may need to run fewer recruitment campaigns for chairs and board members. It may also transfer some of its costs to merged bodies, if they take on work the Scottish Government previously did for predecessor bodies (eg, providing procurement or IT services).

50. Scottish Government merger teams prepared business cases for most mergers and looked at expected costs and savings to determine the affordability and value for money of each of the mergers proposed. When the Scottish Government developed the initial cost estimates, the exact remits and structures of the new bodies were not clear. This made it difficult to estimate all costs accurately. Some merger teams responded to this uncertainty by producing ranges and 'best estimates' for key costs and savings, specifying the assumptions on which the estimates were based. This led to wide-ranging estimates; for example, the estimated cost of the Creative Scotland merger ranged from £2.1 million to £4.4 million, and for the Care Inspectorate merger ranged from £4.2 million to £7.2 million.[12] (For more information see paragraphs 70 to 72.)

51. Merger teams estimated that most of the anticipated costs would result from staff changes, in particular from costs incurred through restructuring workforces. While the Scottish Government expected to make savings overall by reducing staff levels through redeployment and natural turnover, it accepted that there might be extra costs initially from using early release schemes to help staff leave if there was no role for them within the new organisations.[13] The Care Commission, Creative Scotland, Skills Development Scotland, Education Scotland and Healthcare Improvement Scotland all made use of early release schemes.

52. The Scottish Government also anticipated that merging bodies would incur other staff costs when, for example, negotiating new, 'harmonised' terms and conditions for staff transferring onto a common pay scale or pension scheme. Costs arose when, for example, because of equal pay claims, Skills Development Scotland increased the salaries of some staff from predecessor bodies to match them to those doing similar work from another predecessor body.

53. Overall, the Scottish Government expected to offset the initial merger costs through cost reductions from employing fewer staff. It also expected that the opportunity to streamline processes, share services and rationalise assets and contracts within the new organisation would produce further cost savings. However, no detailed work was done at the planning stage to measure such benefits and estimated savings were based on broad assumptions only.

Merged bodies did not record or report merger costs fully

54. For the four mergers we examined in depth, the Scottish Government estimated merger costs of around £30 million would arise over the six years from 2008/09 to 2013/14. In these four cases, the merged bodies have reported actual costs of £42 million to date (Exhibit 8, page 20).

55. Each merging body was responsible for managing the cost of its merger and working within the initial cost estimates produced by the Scottish Government. Merging bodies recorded large costs, such as voluntary early release payments made to allow restructuring and reduce staff numbers. Because the recording of costs concentrated on staff costs, the £42 million cost to date is likely to be an under-estimate of the full cost of the mergers.

12 *Public Services Reform (Scotland) Bill: Financial Memorandum*, May 2009.
13 Under early release schemes, employers may provide a one-off payment to staff who volunteer to leave employment. In addition, employers may also allow staff to apply for early retirement, depending on their pension scheme rules. Longer-term savings from not replacing staff who leave should offset the short-term costs incurred from these schemes.

Exhibit 7

Types of merger costs and savings

There are five main types of merger costs and four key areas where merging bodies may achieve financial savings.

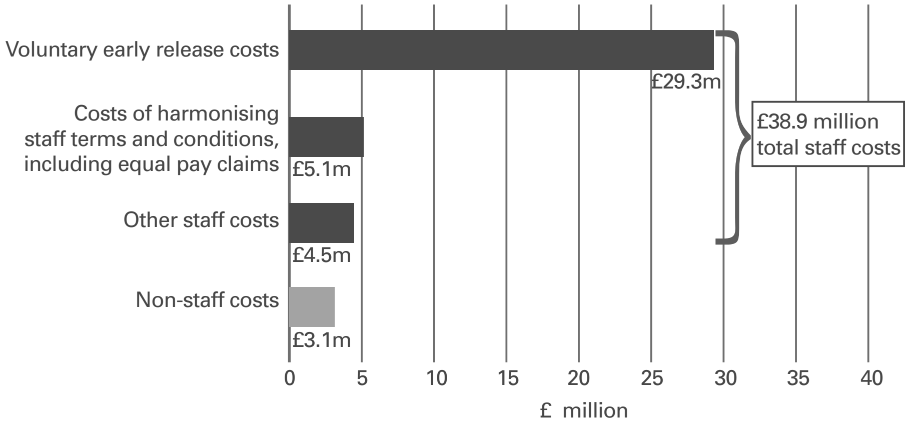
Costs may include:	Financial savings may arise from:
Staff	Reduction in staff numbers
• Costs of advertising new posts; recruitment; additional staff costs (including costs for any new shadow team members) • Voluntary redundancy; early retirement; payment in lieu of notice • Harmonising pay and terms and conditions • Costs associated with new pay and grading systems • Pension consolidation • Relocation costs • Skills development and training	• Reduction in salaries and pension contributions • Reduction in 'head count' related costs (eg, IT equipment, office space, vehicles)
Property	Asset and contract rationalisation
• Acquiring new property/refurbishment • Removal costs • Lease exit payments and associated restoration • New service contracts or exits from existing contracts	• Sale of property • Reduction in rent payments • Reduction in facilities management costs (eg, property maintenance, energy costs) • Reducing number of vehicles • Disposal of IT equipment • Negotiating new contracts
Information technology	
• Consultancy costs • Equipment costs • Integrating IT systems • Service contracts and contract exit payments	
Corporate	Shared support services
• Management time to plan and implement mergers • Support for dual or parallel running in planning and implementation phases • Specialist advice and support (eg, human resources, project management, finance, legal) • Professional fees and consultancy costs • Financial implications of type of new body (eg, VAT, loss of charitable status)	• Sharing corporate services (eg, procurement, finance, IT, human resources)
Consultation and communication	Streamlined processes
• Stakeholder communication • Staff consultation • Raising public awareness; website development; branding/advertising	• Improving organisational delivery • Ceasing low-priority activities • Reducing duplication of effort

Source: Audit Scotland

Exhibit 8

Merger costs to 2011/12 for the Care Inspectorate, Creative Scotland, Marine Scotland and Skills Development Scotland

The four mergers we examined in detail have cost £42 million to 2011/12, most of which is for changes at Skills Development Scotland (£35 million).



Note: Other staff costs include pension consolidation costs, recruitment, training, and developing new pay and grading structures. Non-staff costs include IT costs, legal fees and consultancy.
Source: Audit Scotland

56. The merged bodies have not identified all reorganisation costs, in particular non-staff costs, as they did not all record these separately, but instead absorbed them into day-to-day running costs. For example, Skills Development Scotland used consultants during 2009/10 to support its initial phase of organisational development and harmonisation. It did not record these costs as attributable to its merger.

57. Only Marine Scotland and Creative Scotland identified and reported any non-staff costs as a result of merger (totalling £3.1 million; £1.5 million and £1.6 million respectively). They were incurred for consultancy support, the integration of IT and business systems, legal and financial advice, rebranding and making board appointments. All merged bodies are likely to have incurred these or similar costs as a result of merger but have not reported them separately.

58. The National Audit Office (NAO) also found that the recording of merger costs focused on staff costs, particularly redundancies. The NAO highlighted the difficulty of separating reorganisation costs from the costs of ongoing business. It estimated that non-staff costs, for example property and IT, were likely to be at a similar level to staff costs.[14]

59. The assessment of costs is also incomplete because some recently merged bodies are still incurring costs as changes are introduced (for example, at the Care Inspectorate, although these will be funded from current and future budgets and may not be separately identified). This is further complicated by the need for public bodies to reduce costs as their budgets reduce. It is not clear that staff restructuring costs, for example, are solely attributable to merger rather than more general financial pressures. Therefore, in the mergers we examined, we cannot say how much mergers have cost in total.

Budget allocations included estimates of savings but these have been poorly tracked

60. After their start date, merged bodies were not required to report specifically on their merger costs and savings or to produce or report any revised estimates as they became known. This weakened accountability for the costs and savings arising from merger.

61. The Scottish Government allocated budgets to merged organisations that included general efficiency savings targets, as part of its overall efficiency programme for all public bodies. The efficiency targets for the four merged bodies that we examined in detail were reflected in their budgets in different ways.

62. The Scottish Government allocated grant-in-aid to Skills Development Scotland for the three years 2008/09 to 2010/11, based on assumed efficiencies in each year of £8 million, £12 million and £19 million respectively. Because of this, Skills Development Scotland's budget for these three years was seven per cent (£39 million) less than the budgets previously allocated to its predecessor bodies to deliver the same range of services. There was no formal plan outlining how it would achieve these efficiencies. Skills Development Scotland has reported it has achieved savings in line with the planned efficiencies. It has achieved this by reducing staff costs through voluntary severance and early retirement; using an outsourced partnership contract to reduce IT costs; introducing tighter controls on discretionary spend; and through savings made on procurement, estates, external consultancy, promotional spend and research.

63. The budget for the Care Inspectorate reflected a required efficiency saving from the combined budgets of its predecessor bodies of 7.6 per cent of operating costs in

14 *Reorganising central government*, National Audit Office, March 2010.

the first year (2011/12). However, the new body's draft operating plan identified additional required savings increasing to a cumulative 25 per cent efficiency saving (£9 million a year) during its third year (2013/14). The Care Inspectorate exceeded the first year efficiency target, delivering savings of 8.6 per cent on the combined predecessor bodies' budget position. The Care Inspectorate also had an outline plan to deliver the 2012/13 and 2013/14 efficiencies. However, in September 2011, the Scottish Government removed the planned budget reduction for these years after instructing the Care Inspectorate to conduct at least one unannounced inspection each year of some services, including services for the elderly, from February 2012 onwards. The Care Inspectorate's gross expenditure budget for 2012/13 is £33.4 million.

64. Creative Scotland's budget in its first year (2010/11) was the combined budgets of its predecessor bodies, although it took on additional responsibilities. Its core budget from the Scottish Government remained the same in 2011/12 (£50 million). Creative Scotland anticipated efficiency saving targets of three per cent of its annual operating costs each year over three years (2011/12 to 2013/14) and decided to make a single ten per cent reduction in its operating costs in 2011/12 instead. It has reported it exceeded this target, largely through reductions in staff numbers, reducing its operating costs by £1.5 million (17 per cent). Its budget for 2012/13 and 2013/14 reflects this reduction in costs.

65. The Scottish Government based the budget for Marine Scotland on the combined budgets of its predecessor bodies, with additional funding of £16.6 million over its first two years (2009/10 to 2010/11) to cover its new marine management duties. Marine Scotland inherited the efficiency targets of its predecessor bodies for 2009/10 and 2010/11, which required total savings of £5.4 million over the two years, to be made within this budget. It has reported it exceeded these targets, with efficiencies of £6.7 million over the two years (five per cent of its operating budget).

66. Merged bodies have reported that they are making efficiency savings in line with the targets set by the Scottish Government. However, in the cases we examined, the information supporting reported efficiency savings did not include performance information setting out the quality and levels of services provided. Because of this, it is not possible to determine if the efficiency savings reported have affected service quality or productivity. Also, we do not know which efficiency savings were made because of the merger or whether they could have been achieved without merging predecessor bodies.

In four mergers, workforce changes cost £39 million but reductions in staff numbers are projected to save £20 million a year

67. Around £39 million (93 per cent) of the merger costs reported by the four mergers we reviewed arose from restructuring the workforce and other staff costs, including £29 million voluntary early release costs (Exhibit 8). Skills Development Scotland, the largest of the four cases we examined, incurred the majority of these costs (£35 million), including £26 million voluntary early release costs. However, merged bodies have reported annual cost reductions that will help offset the one-off costs incurred to reduce staff numbers (Exhibit 9).

Exhibit 9

Staff reductions in the mergers we examined

All four mergers we examined in depth have made cost reductions by decreasing staff numbers.

Merger	Staff reduction	Voluntary early release payments[1]	Additional pension charges[2]	Annual gross salary reduction[3]
		£ million	£ million	£ million
Skills Development Scotland	395	18.9	7.2	16.0
Care Inspectorate	57	2.4	–	2.2
Creative Scotland	50	0.8	–	1.2
Marine Scotland	22	none	–	1.0

Notes:
1. Voluntary early release payments were made to 395 (full-time equivalent) staff in Skills Development Scotland, 57 staff in the Care Commission (a predecessor body of the Care Inspectorate) and 30 staff in Creative Scotland.
2. Some staff that left Skills Development Scotland were entitled to enhanced pensions, which resulted in additional pension scheme charges to Skills Development Scotland as the employer.
3. This is based on the number of staff who left each body because of merger. Net savings are lower because in some cases additional staff were recruited in new roles. No merged body has assessed net savings.
Source: Audit Scotland

68. At the outset, in 2007, the Scottish Government estimated that the creation of Skills Development Scotland would cost £20 million over two years, and it expected the long-term cost reductions from fewer staff to offset these costs. Over four years (2008/09 to 2011/12), Skills Development Scotland incurred £35.3 million costs relating to staffing changes, including £26.1 million for voluntary severance of staff and £5.1 million for unforeseen equal pay claims from staff transferring from predecessor organisations. Skills Development Scotland's original budget did not include funding for the equal pay claims, but it settled these in 2008/09 from its original budget allocation. Skills Development Scotland was able to do this because of delays to other expenditure for early release payments.

69. Between its inception in April 2008 and March 2012, around 27 per cent of Skills Development Scotland's original workforce left its employment, under three successive voluntary early release schemes. Skills Development Scotland expects this to save £16 million a year from 2012/13 (36 per cent of the budgeted £44.2 million staff costs in that year). This cost reduction is in line with Scottish Government estimates, although it took two years longer to achieve than originally forecast and the net savings are lower because Skills Development Scotland recruited staff in additional roles. It has not revised its estimate of savings to reflect this.

70. The Scottish Government's best estimate of the cost of the Care Inspectorate merger was £5.6 million over the four years 2010/11 to 2013/14 (within a range of possible costs of £4.2 million to £7.2 million).[15] Most of the estimated costs (76 per cent) were from the restructuring of the workforce. In the first two years (to 2011/12), the merger has cost at least £2.5 million, which includes £2.4 million voluntary early release payments to 57 staff who left one of the predecessor bodies (the Care Commission) in 2010/11. This scheme reduced the Care Inspectorate's staff costs by £2.2 million (nine per cent) in its first year (2011/12).

71. The Scottish Government estimated early release costs for the Care Inspectorate might range from £1 million to £2.3 million with a best estimate of £1.5 million (based on 25 staff leaving). However, after the late appointment of its chief executive, there was insufficient time to finalise the staff structure and issue the required notice to staff, resulting in almost £0.5 million of unanticipated payments in lieu of notice to staff who left under the scheme. Some of these payments could have been avoided if the merger timescales had allowed for adequate notice periods for staff. The Scottish Government provided an additional £0.5 million to cover these costs.

72. The best estimate of the cost of the Creative Scotland merger over five years from 2008/09 to 2012/13 was £3.3 million (within a range of possible costs of £2.1 million to £4.4 million).[16] In the first three years (to 2010/11) the merger cost £2.7 million, of which 40 per cent were staff-related costs. Overall, staff costs were lower than expected; for example, voluntary early release payments totalled £0.8 million against an estimate of £1.1 million. Creative Scotland reduced staff numbers during its first year of operation by 30 per cent (50 people), reducing salary costs by £1.2 million a year from 2011/12 onwards (22 per cent of its £5.4 million budget for staff costs in 2011/12).

73. The business case for the establishment of Marine Scotland estimated it would cost at least £1.4 million (£1 million to integrate the IT systems of predecessor bodies and £0.4 million for staff and consultancy support dedicated to the merger). The merger has cost £1.5 million, which comprises £0.6 million for staff and consultancy support and £0.9 million for IT integration. Marine Scotland reported staff savings of £1 million in 2010/11 (two per cent of its operating budget). It achieved this by removing 13 full-time equivalent posts in one of its predecessor bodies (Scottish Fisheries Protection Agency) prior to the merger, and removing four senior manager posts and five corporate services posts (eg, human resources and procurement). Marine Scotland also reported savings of £2.6 million in 2010/11 through the sale of a vessel, which was made possible following the merger as the fleets from predecessor bodies were combined.

Recommendations

The Scottish Government should:

- develop robust cost and savings estimates for future mergers and, with merging bodies, regularly review and revise these as necessary as the merger proceeds.

Merging bodies should:

- develop systems to record and report the costs of the merger so that they can be monitored and controlled and used to inform other mergers
- develop systems to record and report savings to demonstrate and provide assurance that the new body is on track to provide the efficiencies and other savings expected from the merger.

15 *Public Services Reform (Scotland) Bill: Financial Memorandum*, May 2009.
16 Ibid.

Part 4. Measuring performance

It is important that public bodies start to develop their performance measurement systems while planning their merger.

Key messages

- For many mergers, it is too early to see performance improvements.
- The weaknesses in performance measures and baseline information will make it difficult for merged bodies to demonstrate the impact of changes in the way they deliver services.

A stronger approach to measuring performance improvements is needed

74. For many mergers, it is too early to see performance improvements. Of the 18 mergers taken forward through the simplification programme, 11 (61 per cent) took place since July 2010. In our sample of nine mergers, seven took place since July 2010 (only the Skills Development Scotland and Marine Scotland mergers pre-dated July 2010).

75. It is important that public bodies start to develop their performance measurement systems while planning their merger. Performance measures relating to the expected benefits of mergers were absent or underdeveloped in all of the mergers we examined. There is also little baseline information from the first year of operation of each body, for example on unit costs, staffing levels and the quality of services. This makes it difficult for merged bodies to demonstrate the impact of changes in the way they deliver services. It also limits the ability of boards and others to fully scrutinise performance to ensure that the expected benefits of the merger are being realised.

76. Establishing effective performance measurement arrangements will take time, particularly in bodies where no baseline information exists. Some organisations are using the performance measures of their predecessor bodies while they develop new measures. During its first year, the Care Inspectorate collected baseline information on its performance while reporting its progress against interim performance indicators, many of which were from a predecessor body. It is developing a new set of performance measures for 2012/13 onwards, reflecting its new functions and objectives (for more information see paragraph 54 of the good practice guide on our website).

77. Feedback from users, stakeholders and staff can help merged bodies to assess performance, demonstrate change, or identify what service improvements are needed. Merged bodies are beginning to develop arrangements to collect feedback:

- Education Scotland and National Records of Scotland took part in the UK-wide Civil Service People Survey shortly after they were established and both have developed action plans to address issues raised. The annual survey asked staff about their attitudes and experiences of work in nine areas, including leadership and managing change, organisational objectives and purpose, and resources and workload. The full results for both organisations are available on their websites.[17]
- The Care Inspectorate completed an 'Involving People' review to guide its interaction with service users in the future and will implement a new strategy based on this work in June 2012 (for more information see Case study 4 in the good practice guide on our website).
- Scottish Natural Heritage surveyed former Deer Commission for Scotland staff and deer management stakeholders two months after the merger as part of an initial post-implementation review.[18] The survey explored views on the success of the merger. It concluded that the organisation was moving in the right direction and had allayed some of the concerns held by stakeholders pre-merger, but that it needed to work closely with staff to better demonstrate and realise the full benefits of the merger. Scottish Natural Heritage used the survey findings to develop its benefits realisation plan (for more information see Case study 2 in the good practice guide on our website).

78. User feedback, along with information on productivity, service quality and delivery, will help merged bodies to demonstrate whether they have delivered the benefits expected.

Merged bodies are changing the way they deliver services

79. Implementing each merger involved significant work. Merged bodies are expected to continue delivering broadly the same core services as their predecessor organisations, although in different ways, while improving service quality and efficiency in the longer term.

80. Despite significant pressures, none of the mergers we examined in detail appears to have adversely affected service delivery. The exact quality of delivery is not clear as performance information is lacking, but new organisations report that they continue to deliver business as usual, despite reduced staff numbers and budget constraints. For example, working with the Scottish Government, Skills Development Scotland has introduced new programmes in response to the economic downturn, such as 'adopt an apprentice', 'flexible training opportunities' and the delivery of 'Partnership Action for Continuing

17 Autumn 2011 survey reports for Education Scotland (http://www.educationscotland.gov.uk/Images/EmployeeSurveyHighlightsEducationScotland_tcm4-686794.pdf) and National Records of Scotland (http://www.nas.gov.uk/documents/employeeSurvey2011.pdf)
18 Scottish Natural Heritage plans to conduct a further, wider survey during 2012, to inform a final evaluation of success in realising benefits from the merger, having allowed what stakeholders had identified as sufficient time to make such a judgement.

Employment (PACE)'. Since the PACE programme was introduced in 2009/10, it has supported an average of 13,000 individuals a year who were made redundant or were at risk of redundancy. Skills Development Scotland has also maintained or expanded the number of training places and similar outputs that it procures for people, supported by extra funding from the Scottish Government in some areas.

81. The four merged bodies we examined in depth reported that they have started to change the way they work, in line with the general aim to provide a more efficient user-focused service (Exhibit 10). However, the absence of performance measures and the lack of baseline information makes it difficult for them to demonstrate the impact of these changes on users.

Recommendations

Merging bodies should:

- develop performance reporting systems and key performance indicators that measure the benefits expected from the merged body and aim to publicly report performance information no more than two years after the start date of the new body
- ensure that baseline data is identified during the planning phase and collected and used to report on performance and delivery in year one of the new body
- collect views from users, staff and stakeholders on performance and use this to measure improvement and influence service delivery.

Exhibit 10

Introducing more efficient ways of working in merged bodies

The four mergers we examined in detail reported that they are changing the way they work.

The **Care Inspectorate** reported that it has improved the speed at which its care service inspection reports are produced by streamlining processes and more efficiently deploying its staff. During its first three months, the Care Inspectorate established two new national teams to deal with complaints and care service registration activity. This allowed inspection teams to focus on inspection and enforcement activity. From April to December 2011, the Care Inspectorate issued 85 per cent of draft inspection reports within 20 working days – exceeding the target of 80 per cent (this compares to 67 per cent in the Care Commission the previous year). In the same period, it published 96 per cent of final inspection reports within 13 weeks, compared to 82 per cent the previous year.

Creative Scotland is realigning its budget structure to better reflect its strategic priorities and meet the expectations of its stakeholders. At its first meeting, the board agreed to make up to £6 million available in 2010/11 for immediate investment in new initiatives, such as the development of a guide to Scotland's cultural festivals, equity finance for films and 'place partnerships' with local authorities. Creative Scotland has also replaced 108 separate investment budgets with 15 investment programmes aligned with the objectives in its corporate plan. It reported that this has helped streamline its budget monitoring processes, more clearly demonstrate to its stakeholders how its budget is spent, and focus investment on activities that add value.

Skills Development Scotland reported that it is improving access to its career advice service through the My World of Work website (launched in August 2011). This interactive online service provides career information and advice tailored to individuals' needs. It allows users to access information and resources at a time and place convenient for them, complementing other support available from Skills Development Scotland.

Marine Scotland reported that it is making more efficient use of locally based staff to monitor grants awarded through the European Fisheries Fund. The fund, totalling almost £80 million for 2007 to 2013, provides grants for capital expenditure in the fisheries sector. Before the merger, Scottish Government staff based in Edinburgh travelled around Scotland monitoring investment of this grant funding. Now locally based staff (who were part of the Scottish Fisheries Protection Agency) are carrying out these audits.

Source: The Care Inspectorate, Creative Scotland, Skills Development Scotland and Marine Scotland

Appendix 1.

Reduction in the number of public bodies

The Scottish Government's simplification programme aimed to deliver a clearer, simpler and more effective public sector. Between January 2008 and December 2011, changes made through the simplification programme reduced the number of public bodies by 28 (14 per cent).

Key
✔ detailed examination ✓ document review

Changes to public bodies	Included in audit	Date implemented	Estimated cost of change (£ million)	Estimated savings over first 4-5 years (£ million)
Public bodies merged to make new organisation (reduction of seven public bodies)				
Skills Development Scotland (Scottish University for Industry; Careers Scotland; parts of Scottish Enterprise and Highlands and Islands Enterprise)[1]	✔	April 2008	20.00	77.00
Care Inspectorate (Social Work Inspection Agency; parts of Care Commission; some functions of HM Inspectorate of Education)[2]	✔	April 2011	5.56	6.20
Creative Scotland (Scottish Arts Council; Scottish Screen)[2]	✔	July 2010	3.32	4.88
Healthcare Improvement Scotland (NHS Quality Improvement Scotland; parts of Care Commission)[2]	✓	April 2011	0.39	0.49
James Hutton Institute (Scottish Crop Research Institute; Macaulay Institute)[1]	–	April 2011	0.80	0.50
Commission for Ethical Standards in Public Life in Scotland (Commissioner for Public Appointments in Scotland; Scottish Parliamentary Standards Commissioner)[3]	✓	April 2011	0.05	0.04
National Records of Scotland (General Register Office for Scotland; National Archives of Scotland)	✓	April 2011	Not available	
Education Scotland (HM Inspectorate of Education; Learning and Teaching Scotland)	✓	July 2011	Not available	
		Subtotal	30.11	89.11

Changes to public bodies	Included in audit	Date implemented	Estimated cost of change (£ million)	Estimated savings over first 4-5 years (£ million)
Transferred into Scottish Government (reduction of six public bodies)				
Marine Scotland (Fisheries Research Service; Scottish Fisheries Protection Agency; Scottish Government Marine Directorate)[1]	✓	April 2009	1.00	4.30
Scottish Agricultural Science Agency[1]	–	April 2008	0.25	0.75
Scottish Building Standards Agency[1]	–	August 2010	0	0.10
HM Fire Service Inspectorate for Scotland[1]	–	February 2008	0	0
Mental Health Tribunal Agency[1]	–	April 2009	0	0
		Subtotal	1.25	5.15
Transferred into another public body (reduction of five public bodies)				
Aberdeen University (absorbed Rowett Research Institute)[1]	–	July 2008	1.10	10.60
Sportscotland (absorbed Scottish Institute of Sport)[1]	–	April 2008	0.63	2.80
Scottish Natural Heritage (absorbed Deer Commission for Scotland)[2]	✓	August 2010	0.21	0.69
Scottish Public Services Ombudsman (absorbed Office of the Scottish Prison Complaints Commissioner)[3]	–	October 2010	0.06	0.55
Scottish Environment Protection Agency (absorbed Fisheries Electricity Committee)[1]	–	October 2010	0	0.16
		Subtotal	2.00	14.80
Abolished (reduction of seven public bodies)				
Historic Environment Advisory Council for Scotland[2]	–	August 2010	0	0.84
Sites of Special Scientific Interest Advisory Committee[2]	–	August 2010	0.05	0.08
Scottish Industrial Development Advisory Board[2]	–	August 2010	0	0.06
Building Standards Advisory Committee[2]	–	August 2010	0	0.02
Scottish Records Advisory Council[2]	–	August 2010	0	0.001
Sustainable Development Commission	–	March 2011	Not available	
Waterwatch Scotland[4]	–	August 2011	0.53	0.83
		Subtotal	0.58	1.83

Continued overleaf

Changes to public bodies	Included in audit	Date implemented	Estimated cost of change (£ million)	Estimated savings over first 4-5 years (£ million)
Intended new bodies that were not established (reduction of two public bodies)				
Scottish Civil Enforcement Commission[2]	–	N/A	0.01	2.26
Health Procurement HUB[1]	–	N/A	0	0.15
		Subtotal	0.01	2.41
Status of body reclassified (reduction of one public body)				
Scottish Commission for Public Audit		N/A	0	0
		Total	**33.95**	**113.29**
			Net savings	**79.34**

Source of cost and savings estimates:
1. *Public services reform: simplification and improvement update*, Scottish Government, May 2009. Estimated savings over first five years.
2. *Public Services Reform (Scotland) Bill: Financial Memorandum*, May 2009. Estimated savings over first four years.
3. *Scottish Parliamentary Commissions and Commissioners Bill: Financial Memorandum*, January 2007.
4. *Public Services Reform (Scotland) Bill: Supplementary Financial Memorandum*, March 2010. Estimated savings over first four years.

Appendix 2.

Audit methodology and profile of mergers examined

Our audit had two main components:

1. A detailed examination of four mergers. For these bodies we:

- reviewed and analysed information from the Scottish Government and the merged bodies on planning and implementation, costs and savings, and the benefits and outcomes achieved
- interviewed key staff in the merged bodies, including chairs, board members, chief executives, senior managers and union representatives
- interviewed staff in the relevant Scottish Government sponsor teams.

Organisation	Date	Background
Skills Development Scotland	April 2008	Ministers announced the merger in September 2007. It was one of the first mergers announced, and was implemented quickly. In the first few years, Skills Development Scotland was continuing with business as usual against increased demand arising from a worsening economy, and developing its approach to modernise service delivery.
Marine Scotland	April 2009	Marine Scotland was established in 2009, providing a transition year before the Marine (Scotland) Bill was enacted in April 2010. Marine Scotland is part of the Scottish Government. Staff brought into Marine Scotland came from a variety of backgrounds – science, compliance and policy – and they are located across Scotland.
Creative Scotland	July 2010	The establishment of Creative Scotland was first included in the draft Culture (Scotland) Bill in 2006 (under the previous administration), and then in the Creative Scotland Bill (March 2008), which fell due to a weak financial memorandum. This prolonged pre-merger period affected staff and stakeholder expectations. In December 2008, the Scottish Government set up a special-purpose company (Creative Scotland 2009 Ltd) to implement the merger. The Public Service Reform (Scotland) Act 2010 established Creative Scotland in legislation.
Care Inspectorate	April 2011	Following the Crerar review (2007) the Scottish Government looked to reduce the number of scrutiny bodies in health, social care and education. In November 2008, ministers announced the creation of the Care Inspectorate and Healthcare Improvement Scotland (see overleaf). These mergers were taken forward through the Public Services Reform (Scotland) Act 2010. The chair and interim chief executive of the Care Inspectorate were appointed at the end of 2010, leaving little time to complete some planned set-up tasks.

2. A document review of a further five mergers. For these bodies we:

- reviewed information from the Scottish Government on the planning and implementation of these mergers, such as business cases, implementation plans, risk registers and corporate plans.

Organisation	Date	Background
Scottish Natural Heritage	August 2010	Following a review of environmental governance in 2007, the Scottish Government decided to transfer the functions of the Deer Commission for Scotland into Scottish Natural Heritage. It did this through the Public Services Reform (Scotland) Act 2010. Scottish Natural Heritage was the bigger partner in the merger.
National Records of Scotland	April 2011	In 2010, ministers asked General Register Office for Scotland, National Archives of Scotland and Registers of Scotland to explore options for a merger. In November 2010, ministers approved a merger of General Register Office for Scotland and National Archives of Scotland (but not Registers of Scotland). There was a 'portal merger' of these two bodies on 1 April 2011, with the practical transition to a single body happening after this date.
Healthcare Improvement Scotland	April 2011	The set-up of Healthcare Improvement Scotland resulted from changes in scrutiny, as with the Care Inspectorate although on a smaller scale and with fewer challenges. It merged NHS Quality Improvement Scotland with parts of the Care Commission.
Commission for Ethical Standards in Public Life in Scotland	April 2011	The Commission was set up by the Scottish Parliamentary Commissions and Commissioners Act 2010. Initially the role of the Chief Investigating Officer was merged with the Public Standards Commissioner in 2009. Then, in April 2011, the offices of the Commissioner for Public Appointments in Scotland and the Scottish Parliamentary Standards Commissioner were merged, leading to some initial savings on administrative functions.
Education Scotland	July 2011	Ministers announced the merger of HM Inspectorate of Education, Learning and Teaching Scotland, the Scottish Government's Positive Behaviour Team and the National Continuing Professional Development Team in October 2010. It was intended to create a single body responsible for supporting quality and improvement in Scottish education.

Appendix 3.

Project advisory group members

Audit Scotland would like to thank members of the advisory group for their input and advice throughout the audit.

Member	Organisation
Jean Blair	Head of Quality Systems, Scottish Qualifications Authority
Norman Egan	Chief Executive, Scottish Tribunals Service
Ian Jardine	Chief Executive, Scottish Natural Heritage
Neville Mackay	Chief Executive, Scottish Public Pensions Agency
Neil McKechnie	Chief Inspector, Education Scotland
Colin Miller	Head of Public Bodies Unit, Scottish Government
David Watt	Director, KPMG

Note: Members of the project advisory group sat in an advisory capacity only. The content and conclusions of this report are the sole responsibility of Audit Scotland.

Learning the lessons of public body mergers

Review of recent mergers

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