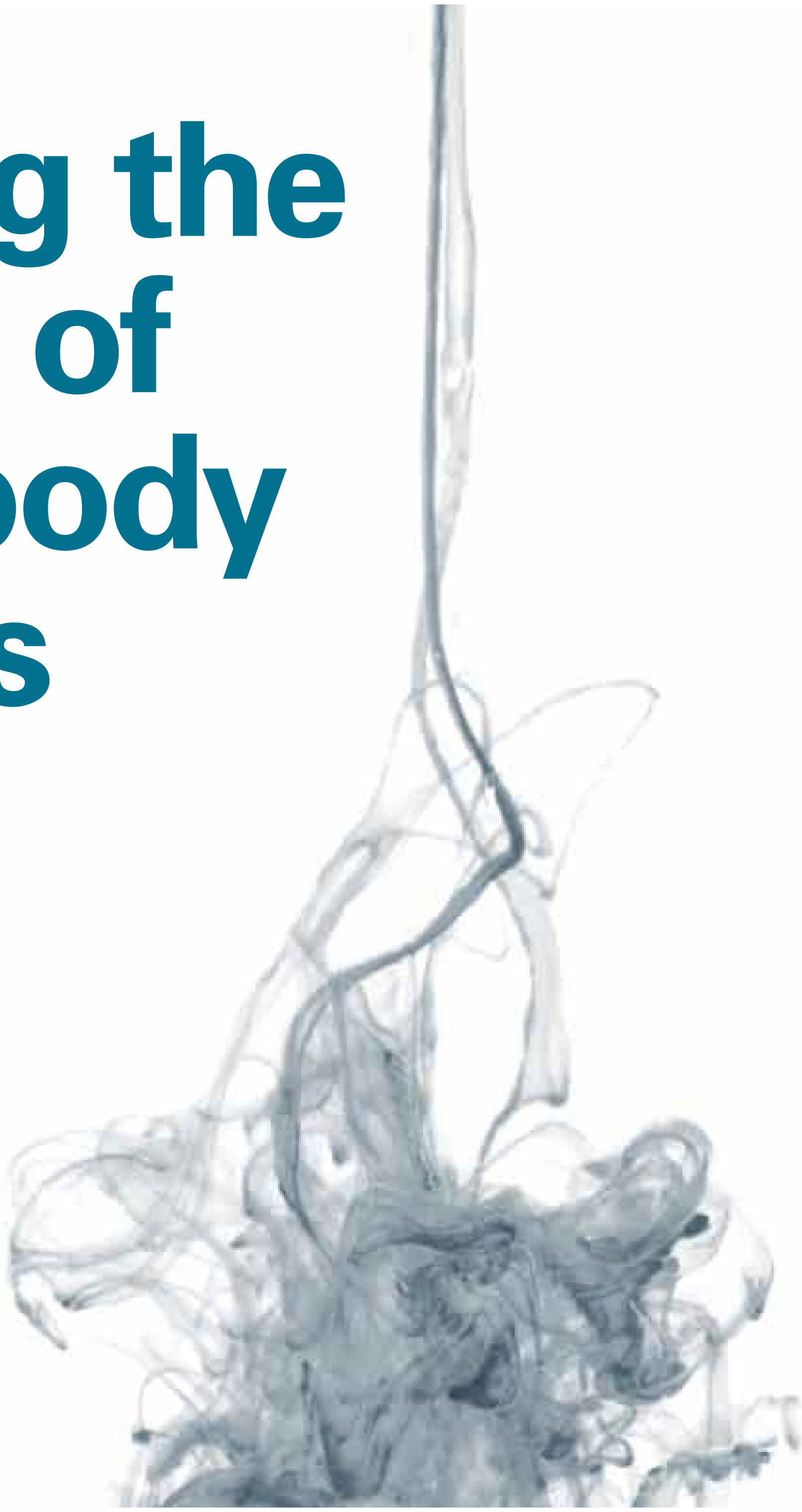
Learning the lessons of public body mergers

Good practice guide



AUDIT SCOTLAND

Prepared for the Auditor General for Scotland
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Auditor General for Scotland

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About this guide

We have prepared this good practice guide to help the Scottish Government and public bodies plan and implement future mergers effectively.

Introduction

1. In 2011/12, we carried out an audit of nine mergers of public bodies in Scotland that were part of the Scottish Government's simplification programme.[1] The programme aimed to improve organisational efficiency and bring benefits to service users and included measures to reduce the number of public bodies in Scotland. The mergers we examined accounted for 88 per cent of the costs and 79 per cent of the net savings that the Scottish Government expected would result from reducing the number of public bodies as part of this programme.

2. Appendix 1 of this guide provides information on the nine mergers examined and our audit approach.

3. Our audit reported that delivering mergers well can be challenging. With more mergers of public bodies in Scotland expected it is important that these mergers benefit from the knowledge, experience and good practice of previous mergers. We have prepared this good practice guide to help the Scottish Government and public bodies plan and implement future mergers effectively.

Purpose of the guide

4. The main audiences for the guide are those involved in:

- overseeing and planning mergers, such as Scottish Government sponsor teams and the Scottish Funding Council who oversee mergers in the colleges sector
- planning and implementing mergers in merging bodies
- reviewing recently completed mergers.

5. The guide is intended to provide practical advice to those carrying out mergers on aspects such as the timing of leadership appointments, planning, measuring benefits and performance improvements, and reviewing mergers to ensure that lessons are learned.

What is in the guide?

6. Mergers are complex and it takes time to move through all the stages from planning to realising the longer-term benefits. We have focused this good practice guide on key aspects of the merger process. In preparing the guide, we have drawn on the findings from our audit, supplemented by a review of published good practice from other sources.

7. The guide is in four parts:

- Part 1 – Establishing good leadership and governance.
- Part 2 – Planning and implementing mergers effectively.
- Part 3 – Estimating and recording costs and savings.
- Part 4 – Measuring performance.

8. The guide highlights good practice based on the key recommendations in our audit report and includes:[2]

- exhibits and case studies, illustrating issues encountered and examples of the good practice followed by merging bodies
- a summary of important questions to consider at key stages, to help ensure any merger is meeting good practice. Board members and senior managers (including the Scottish Government) who are responsible for mergers should consider using these questions to assess their merger.

What other guidance is available?

9. This guide is intended to offer general support to public bodies. It does not replace your own organisation's financial guidance or other relevant guidance, such as that produced by the Scottish Government in 2008 to assist those involved in planning and implementing mergers as part of its simplification programme.[3] The Scottish Government's guidance provided advice on delivering different phases of mergers and specified documents that should be produced when planning a merger. A summary of the Scottish Government's guidance is provided at Appendix 2.

1 *Learning the lessons of public body mergers: a review of recent mergers*, Audit Scotland, June 2012. http://www.audit-scotland.gov.uk/work/central_national.php#mergers
2 Ibid.
3 *Simplification programme implementation guidance*, Scottish Government, June 2008. http://www.scotland.gov.uk/Topics/Government/public-bodies/Simplificationguidance

Part 1. Establishing good leadership and governance

Those responsible for mergers should provide a clear vision for the new organisation and plan to have the right organisational structure in place from the outset.

Key points

Mergers need strong, strategic leadership from the outset. The absence of permanent leaders early in the planning and implementation stages may delay decision-making and the development of key elements such as the long-term vision, objectives and structure for the new body.

We recommend that 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.

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.

10. In this part of the guide we discuss how to get the strategic direction and structure for the new body in place; the timing of leadership appointments; and how to create effective leadership teams and ensure that leaders have the necessary skills, knowledge and expertise.

Developing the strategic direction and structure

11. Those responsible for mergers should provide a clear vision for the new organisation and plan to have the right organisational structure in place from the outset. This is important for many reasons – because the vision should shape all important decisions early on; and because staff should know what is expected of them and what their future role is in the new organisation.

12. Ideally, the leadership team should develop the vision and structure before the start date so that those transferring to the new body can begin performing their new roles straightaway. This also allows predecessor bodies to put appropriate measures in place to allow other staff to leave, transfer or retrain. The absence of clear direction and design at the outset may hamper the implementation of the merger and increases the risk of wasteful or ineffective activity and services.

13. In our audit, we found that few of the merging bodies had developed a long-term vision or preferred staffing structure in advance of their start date. The exception was Creative Scotland, which had a clear strategic direction and structure before the merger date, allowing the chief executive to appoint senior managers one month before Creative Scotland began operating (Case study 1).

Case study 1

Timeline of the establishment of Creative Scotland

Note: Creative Scotland 2009 Ltd was a special purpose company set up by the Scottish Government in December 2008 to implement the merger.
Source: Audit Scotland

Identifying leaders at the right time

14. Appointments to the boards of public bodies in Scotland are regulated by the Public Appointments Commissioner in accordance with the Commissioner's code of practice. Civil servants are also involved in the appointments process and, for example, a senior Scottish Government staff member will normally sit on the selection panel with an assessor from the Commission for Ethical Standards in Public Life in Scotland and others. The selection panel identifies suitable candidates for appointment to ministers and the minister decides who to appoint.

15. It is important to appoint permanent leadership teams early so that there is sufficient time for them to complete important set-up activities. However, the Scottish Government has not always found it possible to allow an extensive set-up period for merging bodies as it balances the need to establish the new body quickly with the complexities of making leadership appointments.

16. In *The role of boards*, we reported that it took about six months to complete a single board appointment.[4] To ensure good governance, ideally the chairs should be appointed before the chief executives of merging bodies. Also, the chairs and chief executives should, respectively, be involved in selecting other members of their boards and management teams.

17. Good practice from our audit suggests that the process to recruit a chair and chief executive should begin at least 15 months before the start date of the new body if the leadership team is to have six months to progress important decisions and develop the strategic direction and structure of the new organisation (Exhibit 1). This may result in some additional costs where the new leadership teams work in parallel with the leadership of predecessor bodies, but the investment is likely to benefit the development of mergers.

18. The need for legislation complicates the process. This can constrain when the appointments process begins as, properly, new public bodies cannot incur expenditure prior to the legislation establishing them receiving Royal Assent. In many recent mergers, the appointments process did not begin until after any necessary legislation was passed. If legislation is needed, up to 21 months may be required between the decision to proceed with the merger and the start date of the new body, if the phasing shown in Exhibit 1 is followed.

19. However, we found a few mergers where the Scottish Government had appointed leaders in advance of completing the legislative process, to good effect:

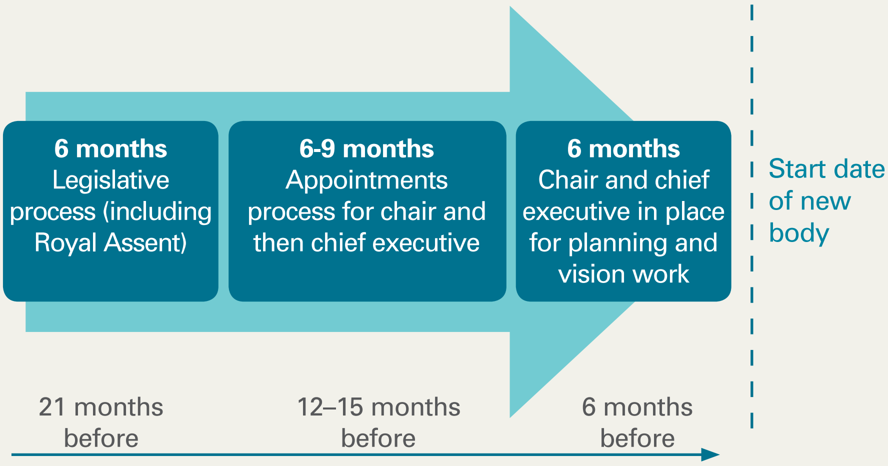
- The chief executive of Creative Scotland was appointed four and a half months prior to the establishment of the new body. This allowed work on Creative Scotland's strategic direction and structure to begin early and eased the transition process (Case study 1, page 5).
- The Scottish Government appointed a chief executive for the Scottish Tribunals Service in October 2010 who will oversee expansion of the service based on the outcomes of the current government consultation on this (ending in June 2012).

20. One other option used occasionally by the Scottish Government when establishing a new body is to delay the start date to ensure that key tasks are completed. For example, the Scottish Government delayed the merger of Scottish Natural Heritage and the Deer Commission for Scotland by four weeks due to a delay in the legislation receiving Royal Assent. However, using this approach can mean that new bodies are created part way through a financial year, which brings difficulties when preparing accounts and managing budgets.

Exhibit 1

Recommended time required to appoint chairs and chief executives

Good practice suggests that the appointments process should begin at least 15 months before the start date of the new body.



Source: Audit Scotland

Creating effective leadership teams

21. In our report on the role of boards, we identified that for the boards of public bodies to operate well they must:

- provide leadership to their organisation
- set the organisation's strategic direction within the context of Scottish ministers' policies and priorities
- scrutinise and monitor the organisation's performance and manage risk
- display integrity in how they behave and how they make decisions
- be open and transparent
- regularly review how they operate
- not become involved in the daily running and operation of the organisation.[5]

22. Two mergers that we examined had completed reviews that assessed board effectiveness.[6] The Skills Development Scotland review, completed before the publication of our role of boards report, assessed the board's performance against five interrelated elements (Exhibit 2 and paragraphs 25 and 26).

23. Effective leadership teams should also have a clear understanding of the separate and different leadership roles played by the chair and the chief executive. They must work closely together, but there is a clear separation of their roles and they must act professionally, trust and respect each other (Exhibit 3, overleaf).

Ensuring leaders have the skills, knowledge and expertise needed

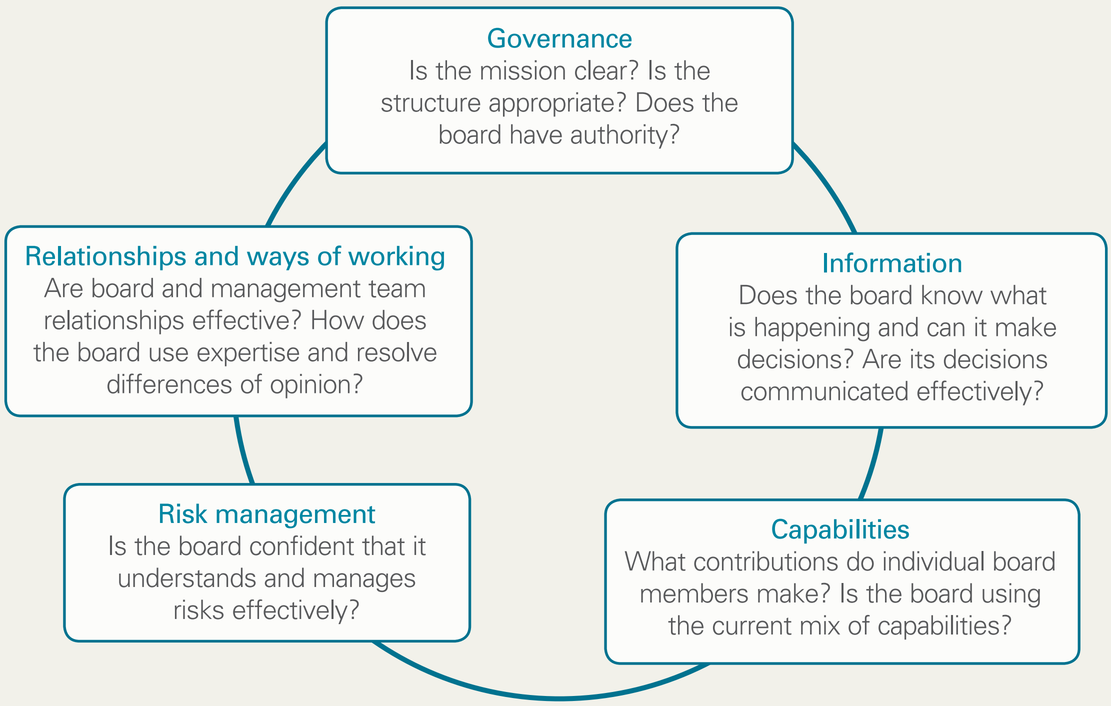
24. Board members and management teams need the necessary skills and expertise to make decisions on priorities and resources. Critical factors in the success of any board are the calibre and personalities of board members, the blend of skills and expertise on the board and how they work together as a group.

25. As part of its board review, Skills Development Scotland used a skills matrix to help inform decisions on who to recruit to the board.[7] The

Exhibit 2

Review of board effectiveness

Skills Development Scotland Board's effectiveness was assessed in the following terms.



Source: Audit Scotland from information provided by Skills Development Scotland

5 *The role of boards*, Audit Scotland, September 2010. The role of boards in executive agencies is different – see Part 1 of *The role of boards* report.
6 Skills Development Scotland and Marine Scotland.
7 A skills matrix is the list of skills and expertise that a board or management team collectively should have.

Exhibit 3

The roles of the chair and the chief executive

The chair and the chief executive play different roles in leading a public body.

Chair	Chief executive
• Leads the board • Ensures the board sets the strategic direction and objectives for the organisation • Ensures that the board holds the management to account for the delivery of the organisation's objectives	• Leads the organisation and its staff • Runs the organisation on a day-to-day basis • Implements the board's decisions • Delivers the organisation's objectives • Is personally accountable to the Scottish Parliament

Source: Audit Scotland

matrix identified both the sector knowledge and experience needed by the board (for example, experience of big business and of young people) and the key delivery skills and track record needed by board members (such as financial management, service delivery and customer service skills).

26. Based on this review, Skills Development Scotland implemented a number of changes which included: creating a new board and committee structure with clear terms of reference for each committee; appointing four new board members in April 2010; and developing better approaches for performance reporting and communicating with staff, the Scottish Government and other stakeholders. Having enacted these changes, internal auditors reported in 2011 that there were no major weaknesses in governance at Skills Development Scotland.

Important questions to ask when establishing good leadership and governance

Governance arrangements

Questions for the Scottish Government

- To whom will the new body be accountable?
- Are the accountability arrangements clear and appropriate?
- How will the new body demonstrate accountability to both the public and to the Scottish Parliament?
- How will good governance in predecessor bodies be ensured while the new body is being established?
- Is it clear who is responsible for making decisions on different aspects of the merger? Is this agreed among all involved?

Strategic direction and structure

Questions for the Scottish Government

- Why are the organisations being restructured? Why is merging the best option?
- What are the Scottish Government's priorities for service delivery and measuring the success of the merger?
- Have changes in the responsibilities of the new body been reflected in the budget transferred from predecessor bodies?
- What improvements in productivity and efficiency are desirable? What support can you give to help the new body achieve these?

Questions for merging bodies

- Is there sufficient time to develop the strategic direction, structure and long-term vision for the organisation?
- When is the best time to do this, taking into account the expected start date? How can any conflict be resolved?
- When will the corporate plan be developed and how will you ensure that it delivers the Scottish Government's objectives for the organisation?
- How will the chief executive, chair and board be involved in setting strategic direction?
- How will the management structure promote development and integration within the new body?

Identifying leadership teams

Questions for the Scottish Government and programme boards[1]

- Who is leading the planning and implementation of the merger?
- How will the chair and chief executive be appointed?
- How will you ensure the chair and chief executive are in place at least six months before the start date of the new organisation?
- How and when will the board and senior management team be appointed?

Ensuring effective, skilled leadership teams

Questions for the Scottish Government and programme boards

- Does the leadership team have sufficient authority to lead the merger?
- What skills, knowledge and experience are needed to lead the merged body?
- How will you ensure that the chair and chief executive have the relevant skills, knowledge and experience?

Questions for merged bodies

- How will you make sure that the new organisation has sufficient capacity and capability at the outset to deliver the merger and the expected benefits?
- How will the board be involved in monitoring, challenging and supporting management in delivering business as usual and ensuring that the full potential of the merger is delivered?

Note: 1. Programme boards, accountable to Scottish ministers and comprising senior officials from the Scottish Government and the merging bodies, can be established to oversee mergers.

Part 2. Planning and implementing mergers effectively

Planning should extend beyond the start date for the new organisation.

Key points

All stakeholders need to understand the purpose of mergers, including clear objectives and the benefits expected. Mergers need to be delivered on time but there also needs to be sufficient consideration and planning for the period after merger, including planning for delivering benefits and demonstrating the improvements made.

We recommend that 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.

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.

27. This part of the guide discusses how to identify clear benefits and plan and review mergers.

Setting clear, specific objectives and benefits

28. Setting clear objectives requires good dialogue between public bodies and Scottish Government sponsors. Generally, when funding allocations are confirmed each year, the Scottish Government will also formally set out the policy framework in which individual bodies should operate and set objectives for organisations to deliver. It is then the responsibility of individual bodies to develop a clear strategic plan to meet the Scottish Government's objectives. The strategy should include specific goals and performance measures.

29. It can take time, insight and determination for organisations to translate their high-level aims into explicit, measurable benefits. Merging bodies can develop appropriate performance measures, once the specific objectives and the criteria against which the success of the merger will be judged are clear.

30. Scottish Natural Heritage used benefits realisation planning to help it plan for securing efficiencies; improving service; improving deer management; better policy and delivery and better stakeholder management. For each of these themes, Scottish Natural Heritage developed a plan (Case study 2).

Case study 2

Scottish Natural Heritage benefits realisation plan

Heading in plan	Content
A definition of each benefit	Reflecting the expected benefits outlined in the business case for the merger.
A description of each benefit	Defining exactly what each benefit will deliver in a way that can be measured.
Performance measures	Setting out the measure(s) that will be used to assess delivery of each benefit. Measures should be specific and, where possible, quantitative.
How delivery will be measured	Identifying what methods will be used to monitor and record progress against the performance measures (eg, key performance indicators; staff surveys).
Baseline data	Where relevant (for example, if the benefit is to improve an existing service), the plan should include a measure of the current state.
Date expected	Identifying when each benefit is expected to be delivered.
An owner	Assigning an individual or group with responsibility for a) delivering the benefit and b) measuring delivery. These may be different people.
Dependencies	Highlighting any relevant projects, risks or other benefits that may affect delivery of the benefit.
Costs/savings	Where possible, an indication of any costs associated with delivering/measuring the benefits, and any expected cost reductions/efficiencies as a result of the benefits being delivered.

Source: Scottish Natural Heritage

Developing a plan for the merger

31. Developing a plan is an essential early step to creating a successful merger. The specific content of plans will vary depending on the design of the merger and should take account of consultative and legislative processes.

32. Ideally, the plan should also allow time to:

- develop the vision for the organisation
- appoint leadership teams
- identify objectives and specific benefits for the new body
- develop communications, IT and HR strategies
- carry out due diligence on contract and asset management, staff transfers and other staff issues, and complete equality-impact assessments
- develop a staff retention policy and staff transfer arrangements
- consult with unions throughout the merger
- do a risk analysis of the merger and the potential effects on staff, service users and other stakeholders including longer-term risks to the new organisation
- review and update the risk register regularly and ensure that all parties are aware of important changes in the status of risks
- conduct a financial appraisal to assess merger costs and savings
- plan independent reviews of the merger process at key stages
- agree budgets, apportion them if required, and set budget transfer timings
- identify how services will be affected and what benefits should result.

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

33. Planning should extend beyond the start date for the new organisation to ensure that the organisation's development is managed throughout. Mergers have four stages: planning, implementation, integration and realising benefits (Exhibit 4). Those responsible for delivering mergers need to consider and plan for the implementation, integration and realising benefits stages from the outset. Defining clear objectives for the merger and identifying the expected benefits, costs and risks in the planning stage can help those leading the merger to make informed decisions during the later stages.

34. Planning should consider and address each of these stages in an integrated way. If it does not, there is a risk that some activities will be forgotten or start too late and organisations will then struggle to recover lost time. We found, for example, that in some mergers benchmarking information from predecessor bodies was not collected and, as it is no longer available, it will be difficult to show that new bodies have improved service delivery.

35. Appendix 3 shows the plan produced for the Commission for Ethical Standards merger. It shows workstreams extending beyond the organisation's start date in April 2011.

36. The plan for the Care Inspectorate included a critical path analysis, showing interdependencies between key tasks to be completed prior to the start date of the new body. The Care Inspectorate's critical path passed through various steps in the legislative process: the appointment process for the chair and chief executive; and the development of the organisation's corporate plan prior to the merger date.

Using reviews to ensure that mergers remain on track

37. It is important to take opportunities to learn lessons from mergers to inform approaches to other mergers. When reviews are carried out, the lessons learned should be shared.

38. Scottish Natural Heritage undertook an initial post-implementation review two months after its merger with the Deer Commission for Scotland, and reported the findings to its board and the Scottish Government sponsor team. The review identified that efficiency savings were expected to exceed the original estimates (£183,000 a year compared with a projected net saving of £120,000 a year in the financial memorandum to the Public Services Reform (Scotland) Bill). The review also concluded that positive aspects of the merger, leading to its perceived success, were effective staff engagement and a clear understanding of roles, which encouraged buy-in and a high level of staff retention and morale. However, the merger would have benefited from earlier discussion and planning about information management. Scottish Natural Heritage intends to conduct a final evaluation during 2012 to assess the full impact of the merger.

39. A single review was completed for the Care Inspectorate and Healthcare Improvement Scotland mergers looking at the implementation and planning stages (Case study 3). The report identified ten key points for future mergers, but the results were not widely disseminated, limiting their usefulness.

Case study 3

Learning points from a review of the Care Inspectorate and Healthcare Improvement Scotland mergers

The review aimed to assess the performance of the project set up by the Scottish Government in December 2008 to create two new scrutiny bodies for health and for social care, social work and child protection and integrated children's services. It was conducted by a member of a change delivery group, who became the project director for the Care Inspectorate merger in December 2010.[1]

The review report concentrated on the project's delivery and what lessons could be learned for any future reorganisations. It did not consider the structural reforms that the project was set up to deliver nor was it designed to be an evaluation of expected outcomes and benefits.

Interviews were conducted with 16 key stakeholders and a number of documents were reviewed.

The review identified the following ten key learning points for future mergers:

- Have a clear vision for the project and the benefits which will arise from the change it is delivering.
- Establish a dedicated project team under a committed leader.
- Create a clear and strong governance structure to support the team and direct it as necessary.
- Develop a clear and comprehensive project plan, with strong risk management arrangements.
- Have a deliverable timetable and stick to it, particularly in relation to things which lie on the critical path. Top leadership appointments are particularly crucial.
- Recognise that stakeholder perceptions, particularly initial perceptions, matter.
- Create an agreed code of corporate and personal behaviours/values which all participants are expected to observe from the outset.
- Ensure that the new leadership team (ie, chair and chief executive) has all necessary support, particularly on human resource and organisational development issues.

Also:

- The Scottish Government must present a unified front in discussions with stakeholders.
- Ensure that whoever within the Scottish Government is normally responsible for appointments should service the project's appointments panel(s).

Note: 1. The Change Delivery Group advised on major pieces of work and made recommendations to the programme board for approval.
Source: *Scrutiny reform project self-assessment*, Scottish Government, June 2011

40. We recommend that all significant mergers are subject to review within six months of the new bodies' start dates, so that lessons learned can be captured and disseminated and to ensure that merged bodies have the appropriate systems in place to measure benefits delivery. It may also be appropriate to conduct another review later to assess the full impact of the merger and if it has delivered the expected benefits.

Important questions to ask when planning and implementing mergers

Setting objectives and benefits

Questions for the Scottish Government

- What are the broad objectives for the new organisation and its future role?
- What benefits is the merger expected to achieve?
- What measures will you use to assess the success of the merger and how and when will you make this assessment?

Questions for merging bodies

- What are the organisational goals and priorities for the new body?
- How and when will achievement of these goals be measured and reported?
- Is there a clear strategic plan for the new body that includes specific objectives, goals and performance measures?
- How can productivity be increased?
- Has a benefits realisation plan been developed for the new body?

Developing a plan for the merger

Questions for merging bodies and programme boards

- Is there a clear, detailed and fully costed merger plan?
- Does it allow sufficient time to plan for essential post-merger activities such as realising merger benefits and implementing new staffing structures?
- Has a risk register been developed that takes account of financial, human resource, IT and accommodation risks and risks associated with service user and stakeholder engagement?
- Is there a plan for assessing risks, taking action and reporting on the outcomes?
- Who is responsible for monitoring and revising the plan and ensuring the merger progresses according to plan?
- What are the key points along the critical path throughout the planning, implementation, integration and realising benefits stages?

Reviewing mergers

Questions for the Scottish Government

- How will wider lessons from the merger be shared and with whom?

Questions for merged bodies

- What review and monitoring will the merged body do to assess progress in delivering the merger, the impact of the merger and the benefits realised?
- Are effective arrangements in place to evaluate the merger within six months of the new body's launch date?
- How will wider lessons from the merger be shared and with whom?

Part 3. Estimating and recording costs and savings

Clear, reliable and accurate information on costs and savings is important for mergers.

Key points

It is important that public bodies measure, control and monitor all of the costs and savings resulting from a merger and are accountable for these.

We recommend that 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.

41. Clear, reliable and accurate information on costs and savings is important for mergers. It allows the Scottish Government and merging bodies to determine if mergers are cost-effective and, when used with relevant performance data, helps determine if the merger is providing value for money. This part of the guide discusses how to set robust cost and savings estimates, and record and report merger costs and savings.

42. Merging bodies may experience a number of different types of costs and savings (Exhibit 5).

Setting robust cost and savings estimates and budget planning

43. Public bodies need robust information on costs and savings to assess if mergers are delivering the expected financial benefits. It can be difficult to generate accurate information on costs and savings. Estimates of costs are often inaccurate because:

- there is insufficient information about key aspects of the merger
- it is easy to forget some types of costs, such as planning time or temporary staff costs
- costs, such as loss of expertise or reduced service quality due to low morale, cannot easily be measured
- costs may transfer to other organisations and there are no systems for collecting this information.

44. Merged bodies can make cost reductions (savings) by employing fewer staff; being more efficient in how they work; and through asset and contract rationalisation. It can be difficult to estimate savings accurately for mergers if:

- a clear understanding of the benefits, including financial benefits, expected from mergers is not set out early in the process
- merger savings are included within organisations' wider efficiency targets and are not separately monitored and reported.

45. For mergers in our audit that needed legislation, Scottish Government bill teams prepared the initial estimates of costs and savings, based on broad assumptions. The Care Commission obtained clarification on the assumptions made by the bill team for the Care Inspectorate merger and used this to suggest ways of improving the estimates.[8] For example, it suggested carrying out a job evaluation comparison exercise for some positions deemed to be 'high risk' – where preliminary work indicated significant variability in the pay given to employees with apparently similar responsibilities in the three predecessor organisations – resulting in a financial risk to the new body. However, a job evaluation comparison exercise was not carried out, meaning that the opportunity to produce more accurate information on likely merger costs and recurring savings and a more robust structure for the Care Inspectorate was missed.[9]

46. The Care Commission developed a financial planning tool for the Care Inspectorate's merger team to help it plan and deliver the expected level of efficiency savings. Its approach involved:

- specifying the budget, and adjusting for expected changes in future years
- identifying costs including expected one-off and recurring costs and when they would be incurred
- identifying other costs and/or a contingency for these
- identifying known merger savings.

47. This analysis allowed the Care Inspectorate to identify what additional efficiency savings it would need to make, and when, to balance its budget.

Recording and reporting merger costs and savings

48. All public bodies need good financial management systems in place to help them monitor and control their spending and ensure that they are delivering value for money.

49. Of the four mergers we reviewed, only Creative Scotland was able to provide detailed and accurate information on its merger costs. The other bodies were able to identify only those larger merger costs which had, for example, been reported to boards or where costs were subject to special approval processes for funding. Merged bodies could improve the accuracy of their recording of costs by:

- setting a separate merger cost budget and identifying expected individual costs within it accurately, and in detail, so that they can be tracked
- assigning responsibility for tracking each cost to a named individual who reports on the outcome.

8 The Care Commission was one of the Care Inspectorate's predecessor bodies.
9 Instead of completing the job evaluation, new job titles were introduced by the Care Inspectorate to differentiate between senior inspectors and other inspectors, reflecting what became inherited pay differences between them. The Care Inspectorate still needs to do a job evaluation on these grades and there is a risk that the current pay structure is inappropriate.

Exhibit 5

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

50. Merged bodies can improve their ability to demonstrate savings and deliver value for money by:

- setting out clear expectations at the outset of what savings are to be realised and at what level (ensuring all potential savings are identified and captured, in particular non-staff savings)
- identifying measures to monitor individual savings
- establishing arrangements for monitoring and reporting on these savings
- ensuring that financial information is included in performance reports. Without this, boards will be unable to assess if the new body is delivering value for money.

Important questions to ask when estimating and recording costs and savings

Setting budgets

Questions for the Scottish Government

- How will the budget be set?
- Will merging bodies be told what their budget is in sufficient time to allow them to develop realistic service delivery plans pre-merger?
- If funding is to be transferred from existing organisations' budgets, is it clear what services and service standards are currently delivered from the allocations transferred? How have the transfer amounts been identified and verified?
- Will the new organisation need funding to take account of changes in VAT status or charitable status, for example?

Estimating costs and savings

Questions for the Scottish Government

- What transition costs are expected and when?
- Have all potential types of merger cost (eg, from staff changes, property, IT, consultation and communciation) been included in the estimates?
- Have non-financial costs, such as loss of expertise or reduced service quality, been identified?
- Are there any costs which can't be estimated, for example where the cost transfers to another organisation?
- What financial benefits from merger are expected?
- What types of savings might arise from the merger (eg, through workforce reductions, more streamlined services, shared services, asset and contract rationalisation)? What other savings (efficiencies) is the merged body expected to deliver?
- How will productivity of the new body be assessed, to ensure that budget reductions represent efficiencies not simply cuts?
- Are the assumptions on which cost and savings estimates are made clearly stated?
- Are cost and savings estimates subject to revision?
- Are cost and savings estimates reasonable? Who will review them?

Reporting costs and savings

Questions for merging bodies

- Who is accountable for monitoring merger costs, savings and budgets?
- How will merger costs and savings be monitored and reported?
- Do you understand what the budget covers?
- Do you understand how cost and savings estimates were produced? Can you improve the accuracy of these estimates?
- Is there a merger cost budget with amounts set against individual items?
- What cost reductions or savings are expected from the merger and when?
- What other savings are expected and what projects/initiatives will deliver these savings?
- Is it clear who is responsible for monitoring transition costs against individual cost budgets?
- What measures are in place to monitor individual savings?
- How will costs incurred and savings made be reported and to whom?
- How will savings information be used with performance reporting to assess value for money? How will you demonstrate that planned savings are not adversely affecting service delivery?

Part 4. Measuring performance

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

Key points

Merged bodies are accountable for their performance and need to be able to demonstrate performance improvements. The absence of baseline information and performance measures will make it difficult for merged bodies to measure and report their performance and demonstrate that changes in the way they deliver services have made a difference.

We recommend that 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
- collect views from users, staff and stakeholders on performance and use this to measure improvement and influence service delivery.

51. Mergers are usually expected to improve the efficiency and performance of public bodies and service delivery to users. This part of the guide examines performance measurement and effective engagement with stakeholders and staff.

Identifying performance measures

52. Merging bodies should measure performance to demonstrate both that they are delivering benefits and to ensure that they are managing performance. Typically, public bodies use performance measurement frameworks when reporting on performance, using a range of indicators linked to the policy framework set by the Scottish Government. The strategic direction is set by boards but must be approved by Scottish ministers and contribute to the Scottish Government's purpose, strategic objectives and targets as set out in the National Performance Framework.[10]

53. It is important that public bodies start to develop their performance measurement systems while planning their merger. Essential actions at the planning stage include:

- understanding and collecting appropriate benchmarking data from predecessor bodies
- selecting and developing performance measures and systems for use in the new body.

54. The Care Inspectorate is developing a new performance management system for use from 2012/13 onwards. This will produce information on performance and outcomes which links with the organisation's corporate plan. As a starting point, the Care Inspectorate is reviewing the key performance indicators (KPIs) of its predecessor bodies to identify which remain suitable for use, and the organisation will then develop other indicators. For example, it is trying to develop a composite measure, which looks at its performance in meeting specified timescales for responding to complaints and registration requests, and it is also developing a new KPI to look at the success of multi-agency working. As an interim measure, the Care Inspectorate has used a selection of Care Commission measures for its first year of operation. This allowed benchmarking against previous performance (although the absence of information for all of its predecessor bodies means the data are not strictly comparable).

Engaging with service users, stakeholders and staff

55. Mergers are often expected to improve services to users. Merging bodies need to communicate well with users, staff and stakeholders throughout the merger process to help plan and implement mergers and to ensure that the services delivered are not adversely affected.

56. We recommend that merged bodies collect views from users, staff and stakeholders on performance and use this to measure improvements and influence service delivery. There are a number of guides to effective consultation and communication with users and customers that can help identify the most appropriate approaches to use.[11] Some key points to bear in mind when engaging with service users, stakeholders and staff are:

- consult early, so that the information can be used to shape plans
- don't ask for views if you cannot make changes and be clear if there are some changes that you cannot make
- use different methods of consultation and choose the approach that is right for the situation and for the people that you are consulting
- consult widely. Users are not the only people whose views may be of use. Staff, especially front-line staff, may have important ideas and non-users could identify possible barriers to using your services

10 *Scotland performs: national performance framework*, Scottish Government. http://www.scotland.gov.uk/About/scotPerforms
11 An internet search on terms such as 'consultation techniques for service delivery' will reveal some suggestions. Although published some years ago, the guidance produced by Dundee City Council is comprehensive and useful: www.dundeecity.gov.uk-dundeecity-uploaded_publications-publication_284.pdf.url More recently, the Central Office of Information (COI – the former UK Government's centre of expertise for marketing communications) developed a guide for effective public engagement on behalf of the Cabinet Office. It can be found at: http://coi.gov.uk/documents/guidance/effective-public-engagement.pdf

- report back to those who helped you – on the views that you received and how this information has helped change service delivery
- evaluate your work and learn lessons for next time.

57. Improving user focus is a key ambition of the Care Inspectorate. Currently, people who use services and their carers can provide views to the Care Inspectorate on the quality of care they receive by completing care standard questionnaires, giving verbal feedback during inspections and via the complaints or national enquiry line. Views are also channelled through an established user involvement group (the involving people group) to inform policy and practice across the organisation's activities.

58. The Care Inspectorate began a review of user involvement in August 2011 to help develop its strategy for this and intends to introduce a more ambitious and broad-ranging involvement strategy in June 2012 (Case study 4).

59. It is vital that staff engage with the merger process and that they actively support the programme of change. Merger teams should:

- identify and consider staff needs at different stages of the merger and be clear about what they can (and cannot) deliver when discussing the merger with staff and unions
- provide regular, open, informative and consistent messages when communicating with staff
- devise strategies to keep staff motivated and morale high
- help staff to understand the vision for the new organisation and their role in achieving that vision.

Case study 4

Care Inspectorate Involving People review

The Care Inspectorate is required to show continuous improvement in user focus when carrying out its activities. This duty is not new to the organisation; all three predecessor organisations had a history of involving people with their work although they used different methods of involvement. By involving people and their carers, the Care Inspectorate expects to be more effective, more efficient and more relevant to the people of Scotland.

The review was quite extensive and included:

- meetings with staff and people involved with delivery partners, scrutiny bodies and support organisations
- an electronic survey resulting in nearly 250 responses
- meeting Care Inspectorate staff including inspection programme managers, inspectors, and managers of administration, registration, intelligence and methodologies and complaints
- talking with lay assessors and service user and carer inspectors and the external organisations that support them
- running workshops for service providers, umbrella and support organisations and associate/locum inspectors.

The Care Inspectorate published a review of its involvement strategy in December 2011 and will publish its new strategy in June 2012.

Source: Care Inspectorate

Important questions to ask when measuring performance

Identifying performance measures/measuring success
Questions for merging bodies
• What are the specific expected benefits from the merger? • How and when will the achievement of these benefits be measured? What performance measures will be used? • How will improvements in productivity be measured? • What benchmarking data from predecessor bodies will be used to monitor changes in performance (eg, performance indicators on service quality)? • What baseline information is available on how services are currently delivered (eg, staffing levels, unit costs, asset use, service standards)? • How will benchmarking data and baseline information be captured? • How and when will progress against performance targets be monitored and reported?
Engaging with stakeholders and staff
Questions for merging bodies
• Who are the key customers, partners and stakeholders of the merging bodies? • How and when will stakeholders and staff be made fully aware of the changes being introduced? • How and when will staff be involved in shaping and influencing the merger plans? How will you know if staff are engaged in the merger process and if they are actively supporting it? • How and when can users, partners and stakeholders raise concerns with the merged body and provide feedback on performance/service delivery? • Are systems in place to regularly measure customer satisfaction and staff attitudes and morale? • How and when will this feedback be used to help measure performance and improve services? • Who will performance information be reported to and how frequently?

Appendix 1.

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 opposite). 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 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 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 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 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 2.

Scottish Government guidance on planning and implementing mergers – key points

The Scottish Government guidance identifies key documents that each merger team needs to produce.

Options appraisal
• Assessing the options for organisational change, including transferring functions to the Scottish Government; continuing to deliver through an existing public body; drawing together functions from more than one public body into a new organisation; or ceasing to deliver the functions.
Business case
Summarising the options considered and clearly setting out evidence to support the preferred option. Should include consideration of: • quality of service (ie, the specific benefits/service improvements expected from the merger; the impact of change on business delivery) • human resource issues (eg, impact on terms and conditions, pensions, working practices) • corporate impact (eg, potential for service integration and shared services) • legal issues (eg, implications for accountability and governance; impact on existing contracts) • financial issues (eg, estimated costs and savings, tax implications, potential efficiencies).
Merger plan
• Setting out the timescale for the merger and identifying milestones, deliverables and key decision points (including any relevant legislative requirements), and allocating responsibility for delivery. • This should be monitored and revised throughout the merger.
Risk register
• Setting out possible risks to the merger and their impact, potential likelihood, mitigating actions and a recovery plan. • An issue log should also be prepared to record any issues/risks that emerge and how they were dealt with.
HR due diligence
• Gathering detailed information from predecessor bodies (eg, staff numbers, pay and benefits, working patterns, terms and conditions). • Based on this information, identifying the staffing implications of the merger and associated costs (eg, staff transfers and redeployment, voluntary early release schemes, changes to pension schemes, harmonising terms and conditions).

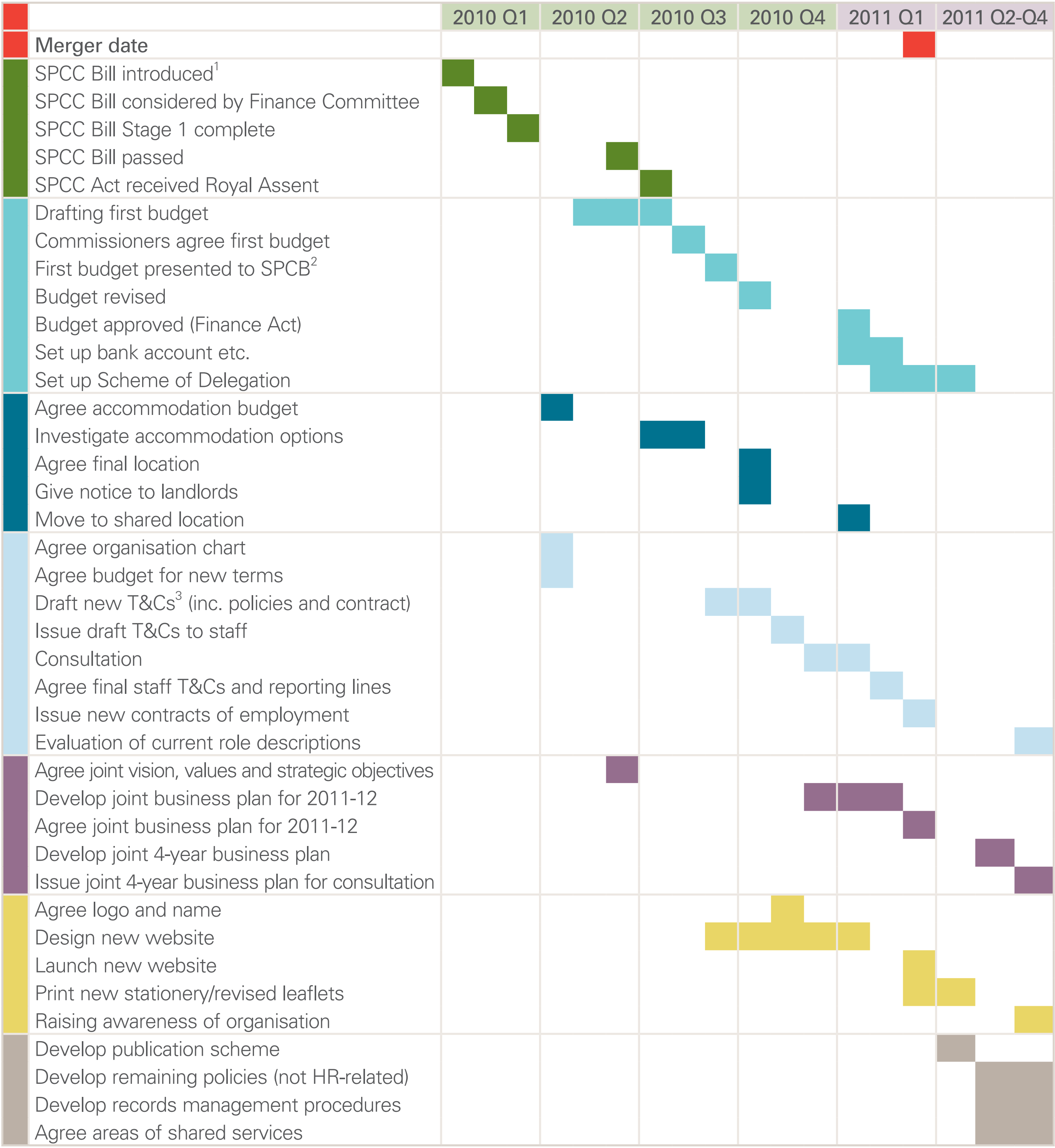
Financial information
• Detailing the expected costs and savings of the merger (by area and year) and any potential efficiencies. • Assessing the affordability of the merger within existing budgets. • Setting out how costs, savings and efficiencies will be recorded and reported.
Communications strategy
• Setting out how engagement with all key audiences will be managed (eg, staff, unions, users, partners, stakeholders, media). • This should outline the key messages to be communicated to each audience (eg, changes being made, impact on staff numbers, expected benefits, timescale).
Independent review(s) during merger
• For projects with significant or moderate risks and complexities, an independent review should be conducted at key stages in the merger process to assess progress and highlight any problems or risks.
Post-implementation review
• Reporting the costs, savings and benefits delivered through the change, and highlighting any lessons learned for future mergers.

Source: *Simplification programme implementation guidance*, Scottish Government, June 2008.

Appendix 3.

Summary of the merger plan for the Commission for Ethical Standards in Public Life in Scotland

The commission's plan shows activities to complete up to and after the start date of the new body.



Notes:
1. SPCC – Scottish Parliamentary Commissions and Commissioners Bill.
2. SPCB – Scottish Parliamentary Corporate Body.
3. T&Cs – terms and conditions.
Source: Commission for Ethical Standards in Public Life in Scotland

Learning the lessons of public body mergers

Good practice guide

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