INSTITUTE FOR GOVERNMENT

Transforming Whitehall

Leading major change in Whitehall departments

James Page, Jonathan Pearson, Briana Jurgeit and Marc Kidson

Foreword

The transformation programmes underway in most Whitehall departments are among the most important, but least understood, recent developments in central government.

The Institute for Government has been working with a number of departments since 2009 to evaluate their work. We are keen to draw lessons from this experience and make them public. The result is one of the Institute's most important reports this year. It should be seen as parallel to the statements on cross-Whitehall reform of the Civil Service which we published in the first half of this year.

James Page and his team have tested and discussed their insights with an advisory group drawn from eight departments, conducted interviews across Whitehall and run workshops on the main themes.

What emerges is a fascinating picture of both the extent of the pressures to reduce spending and staff numbers, and the scale of changes in many departments. There is no uniform pattern, or easily transferable model that applies to all departments. But there are clear lessons about how to achieve a significant and lasting transformation in setting the right direction, assembling the right coalition to lead change, and in engaging staff.

The report identifies several dangers, including large gaps between the rhetoric and reality of change as well as the need to make further spending cuts over the next few years.

There are a number of urgent recommendations about how further necessary changes should be handled. In particular – and this is a recurrent Institute theme – the barriers to departments working together need to be tackled, while greater priority needs to be given to staff engagement.

This report shows how big changes have happened in Whitehall and identifies the conditions needed for further change. It should be read by everyone – politicians, civil servants and commentators – before they talk about reforming Whitehall.

Peter Riddell
Director, Institute for Government

Contents

About the authors 4
Acknowledgements 4
Advisory Group 5
Executive summary 6
1. Revolutionary road 13
2. Leading change in Whitehall 19
3. Early lessons 22
4. Challenges ahead 42
5. Recommendations 46
Annex – evidence base 48
Selected bibliography 50
List of acronyms 53
Endnotes 55

About the authors

James Page is a Programme Director at the Institute for Government, leading the Institute's work on transformational change in Whitehall departments. He previously worked in consulting at PricewaterhouseCoopers and GHK Consulting, and before that in the former Department for Education and Skills Innovation Unit and Demos.

Jonathan Pearson joined the Institute in June 2012. Prior to this he was the Projects Coordinator for the New City Initiative, a membership group examining ways to better regulate the independent financial sector. Before that he was a Thouron Scholar at the University of Pennsylvania, studying for a Masters in Public Administration. He has also worked in journalism and publishing and holds an undergraduate degree from the University of Cambridge.

Briana Jurgeit joined the Institute's Transforming Whitehall Departments team in June 2012 after working for the Department of the Prime Minister and Cabinet in Australia across a number of policy and machinery of government functions. Briana has also advised on legal matters at the Office of the Commonwealth Ombudsman and in community legal centres in Sydney. She holds a Bachelor of Media and Bachelor of Laws degree from Macquarie University and a Graduate Diploma in Legal Practice from the College of Law. Briana is studying for a Masters of Public Administration at the Australian National University.

Marc Kidson has worked at the Institute as an intern since September 2012. His research covers the Transforming Whitehall strand of the Institute's work, including the management of departmental change programmes, civil service capabilities and the broader issues around civil service reform. Prior to this, he worked in representation and democracy at a students' union. Marc graduated in 2010 with a degree in Philosophy, Politics and Economics from the University of Oxford.

Acknowledgements

We are grateful to the Advisory Group for their insights and suggestions as well as for convening workshops with leaders across Whitehall and beyond to get to the heart of some of the key issues. These have shaped the content of this report profoundly.

Many people also gave their time generously to support this work. Thanks are due to those we interviewed across all the major Whitehall departments, who I hope will find their views fairly reflected in the report. We would also like to thank Stella Power, Matt Kerlogue and David Widlake in the Cabinet Office for their role in convening one of the workshops and providing expert guidance on the Civil Service People Survey.

The report would not have been possible without the efforts of colleagues past and present who have contributed hugely to this report and more widely to the development of this area of the Institute's work. Nadiya Sultan, Rosie Shorrocks, Emma Truswell, Justine Stephen and Catherine Haddon all deserve special mention. We would also like to thank Peter Riddell, Peter Thomas, Julian McCrae, Tom Gash, Nadine Smith and Andrew Murphy for their invaluable advice throughout.

Any inaccuracies, errors and omissions are, of course, our own.

James Page, Jonathan Pearson, Briana Jurgeit and Marc Kidson
November 2012

Advisory Group

The Advisory Group supported this research by providing insight and guidance throughout as well as convening workshops on key themes for the report.

The group included Whitehall leaders playing a critical role in their departments' change programmes and one independent expert who has worked across Whitehall and the private sector.

Advisory Group members

Andrea Young	Strategy Director at the Department for the Environment, Food and Rural Affairs
Andrew Campbell	Director, Strategy and Performance at the Department for Communities and Local Government and currently on loan at the Cabinet Office as Executive Director for Civil Service Reform
Antonia Romeo	Director General, Transforming Justice in the Ministry of Justice
Clare Moriarty	Director General, Corporate Services at the Department for Transport
Jonathan Slater	Director General, Transformation and Corporate Strategy in the Ministry of Defence
Rita French	Director of Change at the Department for Culture, Media and Sport
Susie Gear	Independent management consultant, Susie Gear and Associates
Shirley Pointer	HR Director at the Department of Health
Zina Etheridge	Formerly Executive Director, Civil Service Reform in the Cabinet Office

Please note: the views expressed in this report are solely those of the Institute for Government.

Executive summary

A revolution is underway in Whitehall. Confronted by budget cuts on a scale far greater than any since the end of the Second World War, a radical policy agenda and supporting a coalition government, Whitehall is facing enormous challenges.

Following the 2010 Spending Review, most departments faced a blunt fiscal challenge with huge savings required at pace. Departments – except for health and international development – saw an average overall settlement reduction of 19% in real terms over four years, and all departments committed to at least a 33% reduction in their administrative spending.

Departments have moved rapidly to deliver savings and are ahead of the planned 'run rate'. In August 2012 Francis Maude, Minister for the Cabinet Office, announced independently audited savings made by central government of £5.5 billion (bn) in the last financial year, which came on top of £3.75bn the year before.[1]

Overall the Civil Service has shrunk by over 54,000 full-time equivalents or 11% since the 2010 Spending Review.[2] It is now the smallest it has been for almost 70 years.[3] To put this in context, Margaret Thatcher attempted to reduce the size of the Civil Service by a little over 10% in four years. This time round the Civil Service has shrunk by at least that much within 18 months.

Many departments are now fundamentally changing how they work to maintain their effectiveness and, in some cases, build whole new capabilities. Departments have restructured, introduced new operating models and developed major policy initiatives and programmes such as Universal Credit.

A critical turning point

Whitehall is at a turning point. The rapid pace of change to date belies a deeper fragility and challenges ahead. Two out of three large change programmes fail to achieve their aims in the private sector[4] and there are reasons to think Whitehall may fare worse:

- only 27% of staff across the Civil Service think that change is well led and managed in their department[5]
- there is limited experience to draw on of leading change on this scale
- centrally imposed restrictions mean that departments have virtually no access to outside expertise.

Embedding this round of changes and making further savings, without severely undermining morale and capability, places a huge onus on leaders throughout Whitehall. The way they lead these major changes will in large part determine whether or not Whitehall emerges not just smaller, but more confident and effective in years to come.

The stakes are high, not just for the Civil Service and the Coalition, but also for the public. Success will help ensure that high-quality services can be provided at a lower cost than before. Failure will mean not only a demoralised Civil Service but inadequate services and a dissatisfied public.

But at present there is no roadmap for leaders to follow. There is virtually no relevant literature or documented examples of how to lead major change in central government departments. Moreover, no-one else, either in government or beyond, has attempted to learn the lessons from change so far in Whitehall or to set out the challenges and the risks that lie ahead.

This report attempts to bridge that gap, drawing on our independent research.

The Institute began researching major change in Whitehall in 2009 in the Ministry of Justice and now works closely with a handful of departments. We have also drawn on an expert Advisory Group, conducted interviews with leaders responsible for change in all the main departments and run workshops on key issues.

Leading change in Whitehall

The only substantial guide to leading large-scale change is the business literature on change management. While it contains some core insights that apply as much in Whitehall as in business, the context is in many respects fundamentally different.

The most obvious difference is in the nature of leadership. With power and authority shared between ministers and civil servants, there is no single leader with the same levers or control as a corporate chief executive.

In practice, roles and responsibilities can be hard to define and separate. Ministers' political incentives are not necessarily aligned with running a department efficiently and effectively. And turnover on both sides of the leadership divide can make it difficult for departments to stick to a consistent direction of travel. While there has been greater ministerial continuity than under the previous government, only two permanent secretaries remain in the post they were in at the time of the election.

Because departments rely on ministers for direction on policy, their core mission can be ambiguous and fluid. Departments also have multiple stakeholders and conflicting goals with no single measure of value against which to prioritise. As a result, rather than focusing on improving performance against a clear set of indicators, change in departments tends to be driven by new policy priorities, crises and ministerial dissatisfaction with the status quo.

Finally, Whitehall is not a single entity but a federation of departments for which there is no direct equivalent in business. Despite being fairly autonomous and having a tendency to work in isolation[6], there are overlapping interests between departments and with the centre of government, which means that change often requires a wider coalition of support.

Without understanding these differences, it is impossible to get to the heart of what makes leading change more or less successful in Whitehall.

Early lessons

Departments' experiences to date provide lessons about what works.

Set a positive but honest direction

Several departments downsized without establishing a clear direction for the future. But, with the risk of making cuts simply where they are easiest, departments needed a meaningful vision, even more than other organisations. We found that departments with the strongest sense of direction had leaders who articulated a positive sense of what would be better beyond cuts to the department and services, while at the same time being honest about the scale and implications of the challenge.

Several departments simply wanted to make changes as quickly as possible. However, leaders needed to be clearer about how 'transformational' this was for their department and move at a commensurate pace.

Assemble and support the right coalition to lead change

Departments in which leaders worked together and shared responsibility for the change agenda were much better placed to take big strategic decisions and manage risk across silos.

Where executive teams worked towards a common aim, this showed a deep-rooted commitment to change in the department. It also set an example for staff on how they should respond. This was true in the Ministry of Justice, which downsized and changed its executive team as part of building joint leadership of the Transforming Justice programme.

Ministers were generally seen to be uninterested in organisational change and in many cases, departmental leaders were simply "getting on with it". However, whatever ministers' level of direct involvement, they have had a powerful influence through their words and actions. And in some departments, like the Ministry of Defence, ministers have played a pivotal role.

Where we observed governance of change at its most effective, it supported leaders at the centre of departments to take collective responsibility and make joint decisions without micromanaging or burdening the implementation of individual programmes. On the other hand, we found many departments struggled with developing good management information even on the financial savings attached to each project and programme.

Engage staff and partners in change

All departments face the challenge of keeping staff engaged and motivated through a difficult and potentially lengthy process with limited opportunities or financial incentives. Many interviewees felt the 'psychological contract' had fundamentally changed.

In departments where staff were most positive about change, leaders communicated directly; engaged staff in setting direction for the department; supported managers and ran redundancy selection processes that were perceived to be fair and efficient. The Department for International Development (DfID) also made the ability to engage with staff a key criterion for promotion to senior posts.

Looking across government, departments have struggled to work together effectively, even where shared interests exist. Relationships with the Treasury and the Cabinet Office have also needed to be managed carefully to gain support for key aspects of change.

Invest in change now and for the medium term

Most departments have struggled to find the capacity and capability required to lead departmental reorganisation on top of ministerial and other priorities. Those that have prioritised and driven change most effectively have done so by drawing on the best and brightest talent and, as in the Department for Culture, Media and Sport, supporting 'back office' groups (like internal communications, human resources and finance) to play a more proactive and strategic role in the department.

Changing structures and processes to reduce costs may deliver the savings, but interviewees across Whitehall were clear that this alone would not create better departments or ensure that change was sustainable. At one Institute workshop, business executives challenged departmental leaders to set a much clearer direction for staff on behaviour and to reinforce it with clear rewards and sanctions.

Looking ahead, departments were less confident they would be able to meet further rounds of savings. Some, already anticipating the difficult choices to come, have connected change teams with corporate strategy to plan for tough financial scenarios and potential policy options. This contrasts with other departments which have been keen to disband change teams to signal a return to 'business as usual'.

Dangers ahead

Having acted rapidly, departments are finding that gaps are already emerging between the rhetoric and the reality of change which undermine credibility and support among staff. There are also big risks ahead as austerity continues to bite, keeping up the pressure for further savings over many more years.

Credibility gaps

Making change a reality

Ministers have described change as cutting waste from the back office and departmental leaders have emphasised delivering 'more for less'. Both can be difficult to sustain when what staff experience is services being cut and programmes being stopped. For many staff the reality so far has been doing similar work in similar ways, but working harder to make up for the absence of former colleagues. In some cases, greater job insecurity and the imperative to make savings have made departments more risk-averse, not less.

What leaders say and do

In many departments there is a contradiction between what kind of organisation the department is aiming to be and the experience of what the department does on a daily basis responding to events. Similarly, when leaders talked about changing behaviour and organisational culture, this was often not seen to be matched by what was really rewarded and recognised, particularly through promotion to senior grades.

Risks ahead

The Government has already acknowledged that the fiscal consolidation will continue until at least 2016/17. There are major risks when leading change over this timescale with further difficult rounds of savings inevitable.

A fragile leadership coalition

Some turnover of ministers and senior civil service leaders is inevitable. But the change process needs to be resilient enough to survive changes of ministers, permanent secretaries and even governments. Several departments will have to look at increasingly radical options for delivering services and ministers will have to make difficult political choices. Many of the changes that have been made so far were described as “salami slicing… with some great big chunks”. Further cuts will require deeper re-examination and longer-term planning. However, the mechanisms and processes that might make this possible, particularly across governments, do not exist at present.

Departments continuing to work in isolation

To date, change has largely been driven in isolation within departments. However, leaders in several departments felt it would not be possible to make further large-scale cuts in the same way again, which means that greater working across boundaries will become essential.

Despite this, the barriers to joined-up working remain powerful. The spending review process has reinforced silos but there are also institutional and cultural barriers that hold departments back from realising savings and working more effectively across boundaries.

Falling staff engagement

A decline in staff engagement would make longer-term support for change extremely difficult. The experience so far has already been draining for staff at all levels – whether they are leaders responsible for finding savings or staff going through redundancy selection processes while trying to deliver even more. Motivating staff and retaining the best people is increasingly difficult as staff see a bleaker future than when they joined and little prospect of improvement. Gaps in the aptitude and ability of leaders and managers to support their teams have also been exacerbated by the hard realities of downsizing and redundancies.

Recommendations

The progress made by departments so far is hard won and often impressive. But this is only the beginning. Leaders across Whitehall need to hold onto early successes and address the gaps and risks identified in this report if they are to transform the Civil Service.

Departmental leaders, with support from ministers and non-executive directors, need to:

1. **Broaden the ownership of change within departments**
   Turnover among ministers, permanent secretaries and directors general makes further change fragile. By engaging director and deputy director cadres in setting the direction – and by giving them responsibility for leading key programmes – departments can create a more sustainable leadership base for change and signal a long-term commitment to staff across the department.

2. **Plan for the next round(s) of change now**
   Leaders must avoid making cuts where they are easiest. This requires departments to work beyond immediate priorities with permission from ministers and non-executive directors. Change teams need to be connected to corporate strategy so they can work up the best options, analysis and ideas to provide to ministers before difficult negotiations over future cuts begin.

3. **Give corporate functions a more strategic role**
   Leaders can no longer afford to see HR, finance, internal communications and IT as purely back office functions. These groups must play a much more strategic role in how departments operate and deserve greater representation on departmental boards. The specialist skills required to support change in each of these groups need to be recognised and valued, particularly in relation to key issues like the development of management information.

4. **Set a positive direction and get tough on engagement and changing behaviour**
   Engagement and behaviour change are critical to successful change but have been too easily overlooked. Leaders need to be able to explain what the future 'deal' is for staff in the department, the behaviour that is required and what is no longer acceptable, and attach explicit rewards and sanctions – including leaving the organisation. As DfID has shown, staff engagement needs to be made a core part of management and leadership and form part of the assessment for performance reviews and promotions.

Success also requires support from the Cabinet Secretary and the Head of the Civil Service to:

5. **Tackle the barriers to departments working together to make savings**
   Breaking the deeply ingrained cycle of siloed working requires committed leadership from the Head of the Civil Service, Cabinet Secretary and Civil Service Board. It will require: identifying the biggest opportunities for reform and sustainable savings; making changes to current Treasury rules and processes; and actively supporting those in departments to challenge existing priorities and siloed behaviour. This will go a long way to promoting a more unified approach to change across the Civil Service.

6. **Reinforce staff engagement as a top priority in departments**
   This requires the head of the Civil Service to show personal commitment to staff engagement. Permanent secretaries should be held to account through their objectives on how they: communicate with staff about change; support leaders and managers to motivate their teams; and act on the Civil Service People Survey results.

7. **Recognise and reward specialist change skills and expertise**
   Leading and managing major change effectively requires specialist skills and experience. The Civil Service Reform Plan recognises this as a skills gap, but leading change is not a recognised profession so this model for strengthening capabilities will not work at present. Without explicit reward and recognition for the work of change teams and other groups, there is a risk that hard-won skills and experience will dissipate, and the Civil Service will start the next round of savings from an unnecessarily low base.

1. Revolutionary road

Half way through this parliament and two years on from 2010 Spending Review, Whitehall is in the midst of implementing budget cuts on a scale far greater than any since the end of the Second World War and a radical policy agenda while adapting to support a coalition government. A revolution is underway. Departments are undergoing historic changes, fundamentally re-examining their size, shape and ways of working.

Unprecedented challenges

The UK faces an enormous fiscal challenge having posted the largest deficits of any OECD country in 2010 and 2011 – at 13.3% and 12.5% of GDP respectively.[7]

This compares with a peak of 8% of GDP at the height of the recession in the early 1990s; 11.2% in Sweden in 1993 and 9.1% in Canada in 1992 at the zenith of their fiscal crises.[8] Closing a deficit of this scale will take many years and the size of the resulting cuts means that no part of Whitehall will be left untouched.

Taken together, the June Emergency Budget and the 2010 Spending Review set out cuts in public spending of £81bn. Departments (excluding health and international development) had an average overall settlement reduction of 19%.[9] However, this will not be a single hit; inevitably, further rounds of savings will be required in the coming years.

The Government has simultaneously embarked on the most radical reform agenda since the Thatcher and Attlee governments. It has introduced major legislative reforms in health, education, welfare, planning, policing and justice as well as major changes to defence and immigration. On top of this, departments are addressing the cross-cutting growth and localist agendas, fighting the war in Afghanistan, planning for major constitutional reform and facing up to the possibility of Scottish independence.

The pace and scale of reform would be a huge test of the Civil Service at any point. As the Cabinet Secretary, Sir Jeremy Heywood, said:

> *"Whether you look at the economic challenge, the fiscal challenge, the public service challenge, the constitutional reform challenge – we are beset with enormous issues. And any one of those I have mentioned would be the dominant theme of most normal five-year parliaments. We've got them all at the same time."*[10]

At the same time, the 2010 Spending Review set out unprecedented cuts to the Civil Service, with departments subject to at least a 33% reduction in administrative budgets (spending on running departments excluding frontline activities).

It is worth reflecting on international experience to understand how radical this is. The Swedish government, during its fiscal crisis in the 1990s, chose not to cut or reshape their civil service at all because of the uncertainty it would create at a time of crisis with risks to service delivery and, ultimately, achieving the financial consolidation.

The UK Government's approach is at the opposite end of the spectrum, more akin to the Canadian model in the 1990s, which also involved major cuts and fundamental reform of how several federal departments operated.[11]

Neither approach is right or wrong. The cuts present major risks and challenges for Whitehall, but also an opportunity to address deep-rooted weaknesses and, potentially, to emerge more capable and effective in future.[12]

Unstoppable force; moveable objects

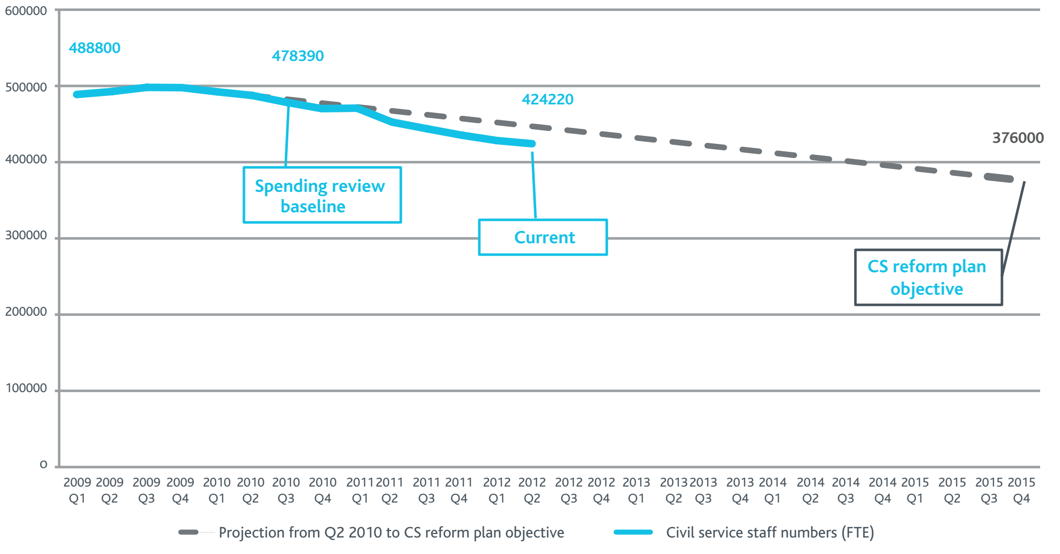
The 2010 Spending Review fundamentally changed the context in Whitehall. After a decade of almost universally rising departmental budgets, suddenly austerity became the 'new normal'. Departments had to agree rapidly how they could continue to deliver on much tighter budgets with no prospect of returning to growth for many years. While some departments had planned in advance, this came as a big shock for most. As one interviewee said:

> *"We knew it was going to be bad. I don't think we thought it was going to be as bad as it was."*

Departments have moved quickly and are ahead of the expected rate for delivering administrative savings. In August 2012 Francis Maude, Minister for the Cabinet Office, announced independently audited savings made by central government departments of £5.5bn in the last financial year, which came on top of £3.75bn the year before.[13]

The biggest chunk of savings, almost £1.5bn, has come from large reductions in headcount. The Civil Service overall has shrunk by over 54,000 full-time equivalents or 11% since the Spending Review[14] and is ahead on meeting the projected reductions set out in the Civil Service Reform Plan (see figure 1).[15] By way of comparison, Margaret Thatcher attempted to reduce the size of a much larger Civil Service by a little over 10% between 1980 and 1984. This time round the Civil Service has shrunk by at least that much within 18 months and is now the smallest it has been since 1939.[16]

Figure 1 – Change in Civil Service headcount since the 2010 Spending Review with linear projection towards Civil Service Reform Plan objective



Source: IfG's Whitehall Monitor #14, figure 2. Based on ONS Public Sector Employment data to Q2 2012.

A group of core Whitehall departments have reduced staff levels furthest and fastest and are now between about 20% and 30% smaller (see figure 2). They are:

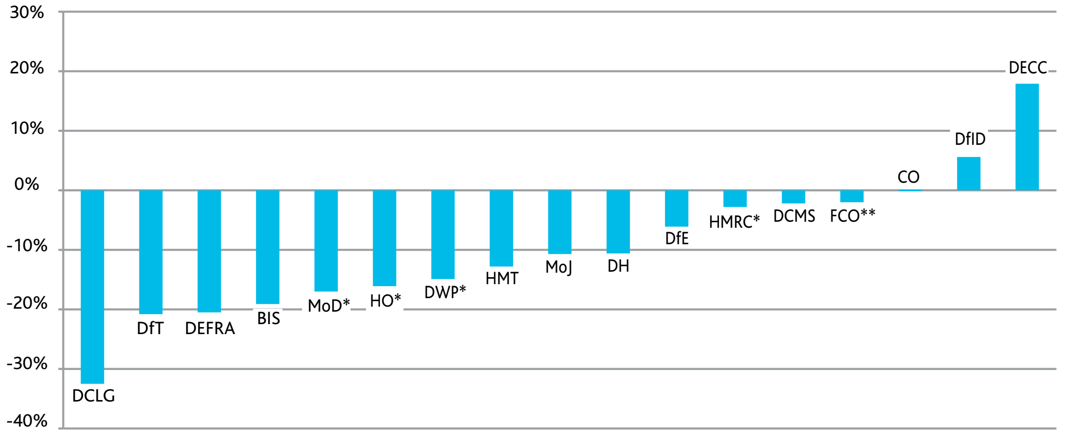
- the Department for Communities and Local Government (DCLG)
- the Department for Transport (DfT)
- the Department for Environment, Food and Rural Affairs (Defra)
- the Department for Business, Innovation and Skills (BIS).

Four of the five big delivery departments have also cut between 11% and 17% of staff, which accounts for a large proportion of the overall drop across the Civil Service. This amounts to:

- over 17,000 staff in the Department of Work and Pensions (DWP)
- over 12,000 in the Ministry of Defence (MoD)
- 8,800 in the Ministry of Justice (MoJ)
- 4,700 in the Home Office.[17]

All this has been completed in the context of a pay freeze since 2010, with future pay increases capped at 1% until 2014.

Figure 2 – Change in headcount by department since 2010 Spending Review



* Includes non-Whitehall (e.g. delivery) components
** Change to Q1 2012 as subsequent numbers are incompatible
Source: IfG's Whitehall Monitor #14, figures 4 and 6. Based on ONS Public Sector Employment data to Q2 2012.

Source: IfG's Whitehall Monitor #14, figures 4 and 6. Based on ONS Public Sector Employment data to Q2 2012.

Departments are also tackling non-pay costs, having made major savings on estates, including £198 million (m) through better management of leases and over £1bn on reduced consultancy spending and developing shared service hubs (one of the few examples of working across departmental boundaries).[18]

Several departments are also fundamentally changing how they work including restructuring, introducing new operating models and developing major policy initiatives and programmes such as Universal Credit. Although their staff numbers may be increasing, departments like Energy and Climate Change (DECC) and the Cabinet Office are undergoing major change too – aiming to build and develop new capabilities.

A critical turning point

The rapid pace of change so far belies a deeper fragility, particularly in light of the challenges ahead. Two in three major change programmes in the private sector fail to achieve their aims[19] and there are reasons to think Whitehall may fare worse:

- On average, only 27% of staff agreed that change was well led and managed, the second lowest score on any question in the 2011 Civil Service People Survey (CSPS).[20]
- The Civil Service has limited experience and expertise leading change on a comparable scale. In the decade up to the 2010 Spending Review, only a handful of departments downsized substantially and realised major efficiency savings over this period.[21]
- With tight central controls imposed by the Cabinet Office, departments have virtually no access to outside expertise to support them. Spending on consultancy has fallen by 85% since 2010 following the moratorium on the use of consultants in central government.[22]

Perhaps most importantly though – despite the common challenges faced by leaders across Whitehall – change has so far taken place almost entirely within departmental silos with very little joining up or learning from each other.

The biggest risk is not failing to achieve the spending cuts but that departments use big, blunt cost-cutting measures to balance the books rather than driving better value. As the Institute has argued elsewhere:

> *"The risk of falling service standards is inherent in fiscal consolidations, given the short timescales to get money out of the system. Cuts fall where they are easiest to make, rather than where they are best to make."*[23]

The question is whether the Civil Service can adapt fast enough and deeply enough to make this round of changes and further savings without severely undermining morale and capability. As the National Audit Office (NAO) concluded in its report on cost cutting in central government, while departments "took effective action... to reduce costs... departments are less well placed to make the long-term changes needed".[24]

Meeting this challenge places a huge onus on leaders throughout Whitehall. Their ability to drive change successfully (making sustainable savings as well as introducing new and improved ways of working) will go a long way to determining whether or not Whitehall will emerge not only smaller but more confident and capable in years to come.

Success or failure will have consequences for the quality of both services delivered directly by the Civil Service (such as paying pensions and benefits, running prisons, securing borders and collecting taxes) and for the wider network of services it oversees. Failure to adapt will mean not only a demoralised Civil Service but poorer services and a dissatisfied public.

It is not glamorous work. Occasionally, stories about waste in Whitehall, or leaked letters on job cuts in the Ministry of Defence make the headlines. But, generally, the major changes underway have taken place outside of the media and public view. There is no break for Whitehall to catch its breath and no finishing line beyond which it can relax and consider the job complete. Priorities will change, but the need to keep changing and adapting will remain.

Governments around the world are now looking to the UK to see how we manage this radical downsizing. Ireland has run almost as large a deficit proportionately in recent years and is undergoing comparable levels of reform to its civil service. Countries like Canada and Sweden face far smaller challenges this time round, but are watching what happens in the UK with interest, just as we initially looked to their past experiences.

This research

There is virtually no relevant literature or documented examples of how to lead major change in central government departments. Moreover, no-one else, either in government or beyond, has attempted to learn the lessons from change so far in Whitehall or to set out the challenges and the risks ahead.

This report attempts to bridge that gap by drawing on our independent research from right across Whitehall.

The Institute began researching how to lead major change in the Civil Service in 2009 when the Ministry of Justice invited us to undertake a real-time evaluation of the Transforming Justice programme. We now work closely with a handful of departments on an ongoing basis. In total, this work has involved over 200 interviews and 10 focus groups with leaders and staff.

To test and validate our insights, we have also:

- drawn on an expert Advisory Group representing eight Whitehall departments
- run four workshops on important issues with leaders from across Whitehall and beyond
- conducted interviews with senior leaders responsible for change across the 17 main departments.

Further details about our research are contained in the Annex.

This report

The remainder of the report is as follows:

- Section 2 looks at why leading change in Whitehall is different from business, and argues that there are three major distinctions that make a contextualised understanding essential in place of generic change management literature.
- Section 3 describes the early lessons for leading change effectively in Whitehall based on departments' experiences to date. It also provides examples of innovative approaches to change from across Whitehall.
- Section 4 argues that, despite real progress, gaps are already emerging between the rhetoric and reality of change in departments and that there are substantial risks ahead of the next round(s) of savings.
- Section 5 makes recommendations for departmental leaders, including ministers, and the Head of the Civil Service and Cabinet Secretary to help build transformed and capable Whitehall departments.
- The Annex gives more details of the research underpinning this report.

2. Leading change in Whitehall

Jack Welch, Steve Jobs and Steve Wozniak, Lou Gerstner, Lee Iacocca, Howard Schultz, Anne Mulcahy, John Timpson and many others are among business leaders with a special place in the corporate world's 'hall of fame' for their roles in radically changing their businesses and making them world beaters.

Under Jack Welch the market value of General Electric increased almost 30 times from $14bn in 1981 to over $410bn by 2001.[25] Jobs increased Apple's value by 44 times from 2001 to 2011, overtaking its main rival, Microsoft.[26]

'Change management' has become an industry all of its own on the back of this. A rich, if not exactly scientific, literature has grown up to celebrate these legendary figures and explain why leading major change made them and their organisations so successful.

It is interesting to reflect on how many examples there are of comparably radical improvements in Whitehall. How many departments could say their 'value' had increased by 30 or 40 times? How many visionary leaders of change have emerged from the Civil Service and are widely celebrated beyond Whitehall? Why is there no change literature to speak of that focuses on the Civil Service?

This is not an attack on the Civil Service or its leaders. The same might be asked of any civil service in the world; there is virtually no literature at all on leading major change in central government. The reasons behind this disparity between Whitehall and business explain a lot of what is different about leading change in Whitehall.

Whitehall is not like a business when it comes to leading change

The only substantial guide to leading major change is change management literature for the private sector. But this is only helpful up to a point in the Civil Service. While it contains some core insights that apply as much in Whitehall as in business, the context is, in many respects, fundamentally different.

Whitehall experiences change in a very different way from the private sector. The Civil Service has always been a long way from the caricature of a steadfastly closed, change-resistant and self-serving mandarinate.

Paradoxically, Whitehall is both a place of constant change and deep inertia. Whitehall does not lack experience of change and reorganisations. Departments are constantly adapting to new ministers and different policy priorities with numerous re-organisations as a result.

The current generation of leaders has experienced a huge degree of change in the last 30 years. Departments have been created and abolished, changed names and swapped functions. Major national industries have been privatised and formerly core functions have been outsourced and commissioned externally. Arm's-length bodies (ALBs) have proliferated and been put on the quango bonfire several times over. And the Civil Service has adapted to serving multiple governments simultaneously as a result of devolution.

Yet, the core of the Civil Service in Whitehall departments also remains easily recognisable from the *Fulton Report* (1968), *Next Steps* (1988) and *Modernising Government* (1999).[27]

From our research, three key factors explain this paradox and make leading change in Whitehall fundamentally different from the private sector.

Dual leadership

The most obvious difference between the Civil Service and a private company is in leadership itself.

With roles shared between ministers and civil servants, there is no single organisational leader with the same levers or control as a corporate chief executive. And the division of labour between ministers and civil servants specifically around change is often unclear and counter-intuitive.

The generally accepted position is that ministers take policy decisions while civil servants advise and run the department. Yet, in practice, these are so interlinked it can be difficult to distinguish. Policy changes can require major shifts in the organisation, such as Universal Credit in the Department for Work and Pensions (DWP) or the expansion of academies and free schools in the Department for Education (DfE). And, in practice, major changes to the size and structure of a department would never be undertaken without seeking ministerial support.

Moreover, unlike chief executives, ministers' incentives are not necessarily aligned with those of their department. This does not mean that ministers do not support their departments but political success can run counter to the best interests of managing the department well. As a current minister reflected in an Institute workshop:

> *"Can we really say the politicians who are recognised by peers and the outside world as doing well are the ones who spend much attention on management and leadership of the institution? You want it to be important to doing well politically but, if we're honest, it isn't."*

Turnover is also high on both sides of the leadership divide in Whitehall, which can make committing to a change programme, or even a consistent direction of travel over several years extremely difficult. Relationships at the top of departments are frequently re-made and leaders on both sides often feel the need to stamp their identity on the department.

Ministerial tenure has tended to be short, averaging around 1.3 years recently, compared with an average of over six years for chief executives in leading private companies.[28]

And while ministerial tenure has increased under the current government, permanent secretaries have been moving post extremely frequently. Two and a half years on from the election, only two permanent secretaries remain in the same post and some have moved several times.[29]

Mission and value

Whitehall departments operate in a complex and uncertain environment.

Because departments rely on ministers to provide direction on policy, their core mission is often ambiguous and fluid. Whitehall departments also have multiple stakeholders and often conflicting goals.

And with no single or clear measure of value, there is often no straightforward way of reconciling different priorities when cutting costs. As one consultancy has argued:

> *"In the private sector, decisions about where to cut costs (and where to invest) are informed by the likely impact on an enterprise's future profitability… In contrast, the public sector lacks an overall measure of value equivalent to profit, so administrators cannot rely on a singular focal point – a lodestar – to guide their decisions."*[30]

This has two consequences. First, major organisational change in departments tends to be driven less by focusing on continuous improvement and more by large changes in policy direction, crises or ministerial dissatisfaction with the status quo.

Second, without competitive pressures to maintain service quality, and because they are having to act quickly, departments tend to focus on where it is possible to make savings rather than finding ways to minimise the impact of change or opportunities to innovate.

Working across government

Whitehall is not a single entity but a federation of different departments for which there is no direct equivalent in business. Departments in Whitehall enjoy a relatively high degree of autonomy and are famously siloed, reinforced by budget allocation and accountability mechanisms. This explains why change has, so far, been driven predominantly within departmental boundaries.

But departments are interdependent and their interests often overlap, which can make it difficult to act on important elements of change. Central departments can limit what is possible in other departments, for example, through the allocation and sign-off of budgets by the Treasury; an effective veto over policy in Number 10; and operational controls and guidance from the Cabinet Office.

This makes tackling issues that require joint action across departments a challenge and requires civil servants to work against the grain of departmentalism with few levers at their disposal to support joined-up working.

Without understanding these differences, it is impossible to get to the heart of what makes leadership of change more or less successful in Whitehall.

3. Early lessons

Departments have now been leading major change programmes for at least two years since the 2010 Spending Review and have taken very different approaches. This makes it possible to look across Whitehall to begin to learn what works.

Departments are so diverse that there can never be a single 'right' answer or approach. It is also too early to be definitive about what leads to success, as the results of downsizings and reorganisations will only truly emerge in years to come. However, we have identified nine early lessons about leading change in Whitehall and used case studies to highlight some of the innovative approaches that departments have taken in relation to them.

1. Setting a positive but credible direction

Several departments have moved straight into downsizing without a positive case for change. But, with the risk of blunt cost-cutting to balance the books, leaders in Whitehall, even more than in other organisations, need to be clear about what will be better in the future beyond just cuts to departments and services. And to be credible, leaders must set out the scale and implications of the challenge ahead.

Leaders in several departments told us that a 'vision' or 'narrative' for change was "too clichéd", unnecessary or required "the luxury of time" they did not have. Some leaders also felt uncomfortable trying to offer a positive narrative about the department when staff unavoidably faced a difficult reality and could see through any attempt to disguise it. This led several departments to move quickly on downsizing without a clear direction for the future.

However, with the risk of making cuts where they are easiest, leaders in Whitehall departments, even more than in other organisations, needed some sense of a better future as part of the case for change.

The huge financial savings required in the 2010 Spending Review provided an unarguable 'burning platform' for action. But they also created an enormous risk that – in the absence of competitive pressures – savings would be achieved by shrinking departments and delivering fewer and poorer services.

Some interviewees had come to regret not making a positive case for change upfront. One interviewee was aware that, while attempting to downsize quickly, the department lacked "a compelling vision to lead [staff] out of the wilderness". The executive team has since spent a significant amount of time trying to create this vision for the department. However, as we have observed in other departments, a retro-fitted vision can lack credibility.

The research showed that for departments that put a lot of effort into the case for change upfront, the benefit was clear. The process of establishing a positive sense of the future department and what 'better for less' would mean in practice, meant leaders and the teams working on this jointly bought into a shared narrative and developed greater collective ownership of change.

Change offered an opportunity to fix things that were not working well enough. As one interviewee put it, “a lot of the changes were widely recognised as being necessary”. And major change, even when driven by reductions in spending, opened up opportunities to innovate in ways that have previously been off limits. In several departments that was exciting for those involved in driving forward new initiatives, even when difficult choices had to be made and some people lost out.

Working on a positive vision also gave leaders an opportunity to address some of the negative elements of the political narrative on the Civil Service. Ministers, and even the Prime Minister, have at times referred to civil servants as “faceless bureaucrats”, part of “a wasteful and bureaucratic state… squandering taxpayers money”,[31] and, famously, “enemies of enterprise”.[32] This is a predictable part of change in Whitehall. Even where counterbalanced in private, or with positive comments elsewhere, these words deeply affected departmental staff.

However, for interviewees, credibility was crucial. As we have observed, the case for change was unlikely to gain much buy-in unless it was also honest about the scale and implications of the challenge ahead.

Making savings has meant cutting staff numbers and, even when this has been predominantly achieved through ‘natural wastage’ and ‘voluntary’ redundancies, this has created a negative atmosphere in departments. Some changes have inescapably resulted in ‘less for less’. Difficult choices, not just removing ‘gold plating’, have often had to be made and staff could easily see where this was the case.

Among the minority of departments in which change was not driven predominantly by cuts making the positive case was easier. An interviewee from one such department said that having “a positive vision and outcome… not just a change programme with cuts” was a major factor in supporting their change programme. But articulating the reasons for a painful process was more difficult. Another interviewee found this was a tough challenge when “the case for change is multi-faceted, with no single over-riding driver”.

Case study 1. Foreign and Commonwealth Office – measuring performance

When the Coalition government came to power, the Foreign and Commonwealth Office (FCO) had already begun a major programme of change – ‘More Foreign, Less Office’ – which required the department to be explicit about how it could add value in an increasingly globalised world with fewer resources to work with.

The 2010 Spending Review challenged the department to make further savings of 24% in real terms over four years, providing added impetus to solidify the work already done.

However, rather than frame change around the necessity of cuts, the new ‘Diplomatic Excellence’ programme set out one ambitious but clear aim for the FCO: to be the best diplomatic service in the world by 2015. The programme is supported by a framework – endorsed by the Office of National Statistics – through which the department can assess its progress across a number of strands, both qualitatively and using a single composite score of overall performance.

To further strengthen this process, the internal assessment is supplemented by an external panel to give expert feedback and assess the FCO's performance and global ranking. Having a credible strategy does not alter the tough decisions the department has to take. But its focus on positive, measurable indicators has helped to provide momentum.

2. Establishing a strategy for change

Moving as fast as possible is not necessarily the right approach to change in Whitehall. Leaders need to be clear about how 'transformational' change really is for their department and move at a commensurate pace.

As the data on staff cuts shows, departments have taken different approaches to change and proceeded at different speeds. Some moved rapidly in the belief that change should be over and done with as quickly as possible. This approach was inspired by the business change literature and reinforced by the views of some non-executive directors from business and finance teams keen to make savings early. One interviewee said:

> *"It's like pulling the plaster; it's going to hurt whichever way you do it, so you either do it short and sharp, or you take it out follicle by follicle."*

Another said the aim was to "restructure, centralise, get the numbers out, be done and get on with our lives". By contrast, others moved more slowly, bunching savings and changes towards the end of the spending review period.

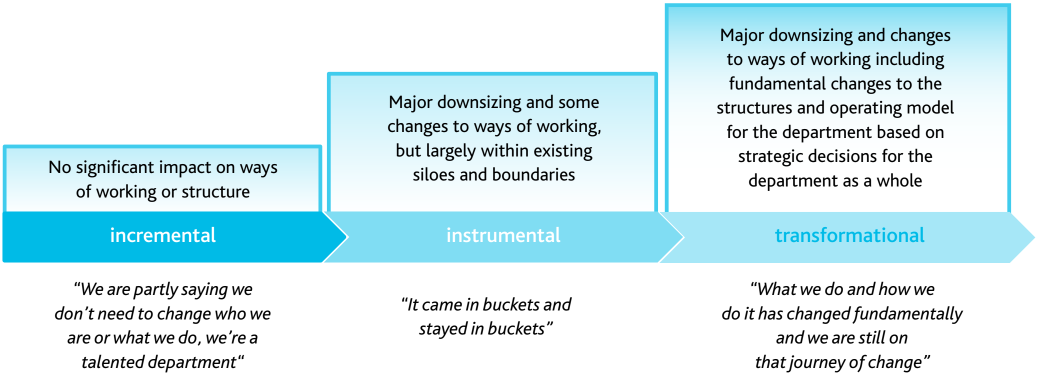
In many cases this was not based on a strategic decision about what type of change the department should pursue having considered the purpose, different options and risks and benefits. In practice, decisions tended to be based more on practicalities or beliefs about the 'right' pace.

Departments' change agendas varied between being incremental and more fundamental and transformative. At one end of the spectrum an interviewee said:

> *"We're partly saying we don't need to change who we are or what we do, we're a talented department."*

At the other end, MoD, for example, is changing its operating model and reshaping top leadership structures and responsibilities as well as making over 30,000 redundancies and closing a large budget deficit. Most departments were somewhere in between, with some downsizing and reshaping but without changing their fundamental structures or resource allocation. As one interviewee said, the change programme "came in buckets and stayed in buckets".

Figure 3 – A typology for the depth of change in departments



Source: IfG interviews

Generally, departments that were undergoing more incremental change found it harder to motivate staff because there was no strong vision. But they had less uncertainty and the process was generally quicker.

The reverse was true of more transformative change; those we spoke to had a positive story to tell. But even well directed change on this scale was deeply disruptive and challenging, and was only possible with a leadership team working collectively.

The type of change should determine the approach. Incremental change should ideally be as light and quick as possible, while deeper transformational change – with implications for structures and potentially culture – requires more time for strategy and design. This is also likely to require a much broader coalition of support within and beyond the department.

In some cases, there were obstacles to aligning strategy and approach. For example the Olympics fell in the middle of DCMS's change programme. Unexpected events that consume large amounts of resources can also divert resources and take time to address. Olympics security and the fuel tanker strike both required significant attention at the MoD.

Not all the departments that acted quickest were embarking on incremental or even instrumental change. There have been mixed results as a consequence. Comments included: "it was a pretty grim time, people felt very battered and bruised" and "the emotional side was very difficult". Leaders in these departments have not regretted making changes quickly, but have had to manage the consequences.

The results for those moving at a slower pace have yet to emerge fully, but a key concern identified in our interviews was losing good people, because of a lack of internal opportunities and poaching by faster-moving departments that have started to recruit again.

Case study 2. Department for Transport – advanced planning enabled rapid progress

The Department for Transport chose to move quickly to a new shape compatible with its settlement in the 2010 Spending Review, which required a 33% reduction in cost and 22% reduction in staff numbers in the central department. The redesign of the senior structure took place from September to December 2010, with selection and allocation to roles within this new structure starting in November, only one month after the Spending Review concluded.

The new senior team redesigned the rest of the organisation from December to February, undertaking selection and allocation between January and May 2011. Most of the required reduction in staff numbers occurred between the end of 2010 and the third quarter of 2011. Key to this fast-paced change was the comprehensive planning undertaken by the department before the election. A small change team drawn from across the department explored various scenarios around both structure and working methods and established clear design principles based on reducing the number of organisational layers.

Communication and engagement was sustained at a high level throughout the change programme. The speed of change necessitated some difficult trade-offs, however. To some in the department the change seemed to be too deep, too fast. With restructuring complete, in summer 2011 the department moved into the next phase of change, recruiting to fill skills gaps and embedding key themes of high performance and one team working.

3. Developing corporate leadership

Corporate leadership is a key enabler allowing departments to take big strategic decisions, manage risk jointly and set the tone for staff. Yet, leadership in departments is often built around silos which limits the potential for transformational change.

As several interviewees observed, Whitehall departments can have deeply entrenched silos with little affinity or necessary interdependence in their work. One small department was described as a "bag of bits". In larger departments, silos existed around both policy areas and delivery agencies. This made delivering change coherently across a department extremely challenging, depending on the extent to which senior leaders, and particularly executive teams, could work across these boundaries to jointly own and lead the agenda.

Departments that had more 'corporate' leadership of change – senior leaders working together for the department rather than just their area within it – found that this was a critical asset. As MoJ's experience (described below) shows, a top team working together in this way made it possible to take big strategic decisions, and to reassess and handle risk across the department, rather than within isolated work areas.

Shared commitment and ownership of change across the department demonstrated that change was resilient and deep-rooted, rather than depending on one or two individuals. In one large department, the executive team jointly created the departmental 'story' which is now being communicated to staff across the country by directors general and directors – not just in their own parts of the department. In MoJ, corporate ownership of the Transforming Justice programme explains why the portfolio has survived a change of government, the 2010 Spending Review, and a new permanent secretary and director general.

However, few interviewees described leadership teams that were behaving corporately. Most departments' executive teams were considered to be broadly stable but not closely connected. One interviewee described the behaviour as "this is my castle and that gate is up".

A small number of departments were felt to have openly competitive or hostile executive teams. Another interviewee described their directors general as "warlords", and another as "big beasts", each with their own closely guarded empire.

Senior leaders' behaviour also established what was recognised and valued across the organisation. We observed in a number of departments that where senior leaders were not willing to collaborate across silos in the best interests of the department, this was reflected directly in the way their teams worked too.

Figure 4 – Different leadership dynamics in departments

Source: IfG interviews and observation in departments

A handful of departments recognised the value of more corporate leadership and actively attempted to develop it, though this has proven extremely challenging and time consuming. In the best examples we observed, it required changing personnel on the executive team as well as restructuring roles to break down silos.

In one small policy department, for example, many longstanding directors and directors general left when the senior civil servants went through a redundancy selection process. Reform was pushed through with strong personal leadership by the permanent secretary with executive team members each taking broad, overlapping corporate responsibility rather than a specific policy area.

Other departments have effectively accepted that a unified and transformative change programme may be impossible and have attempted to manage change within these limitations. One interviewee described a "reluctance to have those opening and challenging conversations" among directors general, which resulted in never having the "strategic discussion about our pressure points and how we manage that".

Some of the most difficult challenges existed in departments committed to large, transformational change that lacked effective corporate leadership. Change in this sort of department is at great risk of failure.

Case study 3. Ministry of Justice – corporate leadership of Transforming Justice

The Ministry of Justice's departmental transformation programme, Transforming Justice, was launched in 2009 under then Secretary of State Jack Straw and Permanent Secretary Suma Chakrabarti. The department immediately established a director general post for the programme. The early phase of the programme developed wider leadership from a group of directors leading key workstreams.

However, MoJ is a large, complex delivery department, created in 2007. This relative newness and complexity contributed to silos developing across the department's different policy areas and executive agencies, which made it difficult to work on a cross-MoJ agenda. Transforming Justice provided the impetus to address this and the department reduced the number of director general posts and reformed its policy function to create a single unit, with the result that "the culture divide between policy and operations is beginning to narrow".[33]

Since then, Transforming Justice has been owned across the top team, who are clearly identified as a coalition strongly committed to the programme. This is reinforced by the next tier of the organisation with directors and deputy directors serving as senior responsible owners (SROs) for individual programmes. The challenge for the department now is to continue to strengthen the corporate leadership and extend it consistently down through the organisation.

4. Building in the politics

> Whatever ministers' level of involvement directly in change, their influence over the outcome is high and needs to be managed as a fundamental part of the change process in Whitehall.

Ministers were not generally seen to be interested in internal departmental change. As one interviewee put it:

> *"Ministers are focused on big outward-facing policy changes [not] internal operations."*

In many departments this has led to a relationship where civil servants "get on with it" as long as policy priorities are unaffected.

This approach played into a traditional understanding of the division of labour with ministers taking policy decisions while officials were responsible for running the department. It also appeared less risky in some cases as it enabled civil servants to take ownership of change rather than rely on ministers who could move at any point.

But even hands-off ministers have played a unique and important role in departmental changes. Given departments' hyper-sensitivity to their priorities, words and gestures, ministers have frequently been a 'third rail' for change.

Some ministers have been a major asset in providing a context for change that supported and empowered departmental leaders, extending their authority and credibility. Departmental savings were often also contingent on major legislative or policy changes which ministers had a vital role in supporting in Cabinet, Parliament and the media.

Similarly, the wrong ministerial words, however inadvertent, set the tone for a long time to come in several departments. This was a particular risk when ministers were new to a department (pertinent in many departments following the reshuffle) and did not yet fully understand the organisation and how their role impacted on the change process. This was also the point at which civil servants were at the lowest point of what was described in one Institute workshop as the "candour curve". Keen to win ministers' confidence, civil servants were least likely to provide critical challenge. One minister at his first all-staff meeting caused unease among staff when he responded "possibly, yes" to the question: "[Are] 50% of us are going to get the sack?"

Ministers have also been important in allowing their department space to focus on internal change. As one interviewee noted, there was a constant tension between the long-term strategy of what the department aims to 'be' and the day-to-day demands of what the department must 'do' which often pull in different directions.

A minority of ministers have taken a more 'hands on' approach to change. At its best this has provided drive and decision-making capacity to focus departmental leaders and cut across siloed interests (see MoD below). However there has always remained some risk that too much responsibility is borne by ministers, not by the department.

More damagingly for departments, some ministers have tried to push change by adopting an openly critical approach. Criticism made in public has been extremely difficult for departments to manage and severely affected the change process. It has undermined the authority of civil service leaders and the credibility of a positive vision for change in the department. The effect can last long after the minister has left.

The relationship with Number 10 was also vital for some departments where savings were predicated on major policy changes. MoJ found this, for example, in relation to changing sentencing policy, which was blocked by Number 10 – leaving a substantial gap in the department's anticipated savings.

As discussed at one Institute workshop, civil servants need to build politics into change rather than trying to manage it at a distance or keep it at arms' length from the change process. This is not about trying to shift ministers or Number 10 to a different mode of engagement. Political priorities are not always in line with running departments effectively and ministers often do not see it as their job. Since this is unlikely to change, civil servants need to focus more on building alignment with ministers through relationships that allow the right conversations and move them up the 'candour curve'.

Case study 4. Ministry of Defence – 'hands on' ministerial involvement in change

The Ministry of Defence is one of the largest and most complex departments in Whitehall. The MoD encompasses many different organisations spread across multiple locations, each of which is staffed by a combination of military and civilian personnel.

Serious issues within the department had built up over the long term as the department struggled internally with decision making and with aligning the interests of constituent organisations against one another. Unlike other Whitehall departments, the MoD lacked an obvious forum for civil service leaders to be brought together to resolve issues and determine cross-departmental strategy, as it is a joint military-civilian organisation. At a time when the UK was engaged in high-profile overseas operations, the department was also subject to intense political and public scrutiny. The department urgently required reform to close a £38 billion budget deficit and resolve the root causes.

In 2010, the then Defence Secretary, Liam Fox took the decision to commission a major external review of the MoD, the Levene Review, which delivered a series of major recommendations on how to reshape top leadership structures and responsibilities, both military and civilian. While this took the determining of the department's future largely out of its own control, that was arguably necessary under the circumstances.

Following the Levene Review, the current Defence Secretary, Philip Hammond has taken a very personal interest in the reform of the department and has worked closely with leaders on transforming defence, including closing the deficit through the 2012 Planning Round. Ministers and senior leaders continue to work closely on addressing the major challenges the department faces in implementing transformation.

5. Managing relationships across government

Despite facing an enormous financial challenge, departments have struggled to work together effectively – even where shared interests exist. Leaders must identify and manage key relationships across government with those who can support or block change.

Departments operate in a complex web of relationships across government and beyond, which presents both opportunities for effective collaboration and potential obstacles to change. However, leaders have tended to focus on change within their own departments and have struggled to work effectively across boundaries even when there were clearly shared interests.

At one Institute workshop, leaders from across Whitehall agreed that greater cross-departmental working could improve service delivery and offered the best chance of making further savings without simply cutting. Yet they were also frustrated at the lack of progress so far. They identified numerous barriers including: ministerial relationships, budgetary controls, accountability and risk, a lack of impetus from the centre (HM Treasury and Cabinet Office) or buy-in from some departments, and a lack of cross-government data sharing.

Fundamentally, as one senior official put it:

> *"The problem is that the incentives are not there for departments to bear the cost of savings which will be reaped by a different department."*

Another interviewee described the difficulty of acting collectively when leaders in other departments "don't think any further than the end of their nose and their budgets".

Departments also faced challenges where they were reliant on the Treasury and the Cabinet Office. The relationship with the Treasury was described by one interviewee as "very parent child". In larger delivery departments in particular there were numerous dependencies with the Treasury including agreeing delegations, signing off business cases for key projects and even agreeing policy choices and new operating models.

A few interviewees expressed frustration that the Cabinet Office could "make life unnecessarily difficult" with central controls – including those on voluntary release schemes – which were sometimes seen as counterproductive and creating costly delays. Others agreed with the restrictions and emphasised the constructive role that groups like the Major Projects Authority have played.

More widely, departments took very different approaches to managing relationships with arm's-length bodies (ALBs) and other tiers of government. Some departments involved a wide range of ALBs in the scope of their change programme to make more strategic savings. Others, including departments with extremely large and influential ALBs, engaged less on change. Both approaches involve risk: either creating too many dependencies which are difficult to manage, or failing to sufficiently involve ALBs in decisions that will affect them. Similarly, departments need to decide how best to manage relationships with local government and independent groups or bodies where changes depend on their support.

6. Engaging staff

> Change is inherently challenging for staff at all levels but their energy and motivation are essential to implementing new ways of working. This places an onus on leaders and managers to be better at communicating effectively, celebrating positives and running a fair and effective process.

In some departments, the only job that was safe at the outset was the permanent secretary's, with all other staff put at risk or having to go through a selection process. Even in departments where redundancies have been predominantly 'voluntary', the process has affected everyone. Staff who remain in the job face pay freezes, pension cutbacks and not necessarily improved job security. For many, this has fundamentally changed the 'psychological contract'. This has created a challenge for leaders in all departments to find ways to keep staff engaged and committed despite seeing a "bleaker future than when they joined".

As one interviewee put it:

> *"Our engagement survey results are no secret. They're not terribly good. Less than 50% on the engagement index, which, as our permanent secretary says, effectively means only half our people are coming to work."*

Most interviewees saw staff engagement as crucial. When high, this supported greater "buy-in" from staff. But a lack of engagement could also obstruct change.

Staff engagement overall has remained broadly static across the Civil Service since 2009. But, according to the Civil Service People Survey (CSPS), staff have a very low opinion of how well change is led and managed.[34]

Figure 5 – Staff engagement and perception of leadership and managing change

	Benchmark score		
	CSPS 2009	CSPS 2010	CSPS 2011
Employee Engagement Index	**58%**	**56%**	**56%**
Leadership and managing change	**38%**	**37%**	**38%**
I feel that change is managed well in my organisation	27%	27%	27%
When changes are made in my organisation they are usually for the better	25%	23%	23%

Source: Civil Service People Survey (CSPS)

Adding to this, typical quotes from staff in the 2011 CSPS included:

> *"have more consideration of how change makes staff feel rather than just choosing what may logically appear the most transparent options".*

And:

> *"[Do] not lose sight of the enjoyment and wellbeing of staff as it goes through a difficult change process".*[35]

In the departments that moved fastest, the emotional response has been huge. One interviewee described how staff were "furious" and "shocked". Another described threats of physical violence to the change team and viewed not having a staff suicide as a success measure.

But examples in Whitehall and beyond showed that staff could be engaged through difficult times. At an Institute workshop on the issue, the chief executive at the National Policing Improvement Agency (NPIA), described how, despite the impending closure of the organisation, the number of staff proud to work there was at its highest ever – at almost 90%.

Four factors emerged from the workshop and what we have observed in departments. Very few departments, however, were doing all, or most, of these well.

First, direct communication from senior leaders to set the context and deliver the right messages mattered. In one department where the permanent secretary led several all-staff sessions, feedback from staff was resoundingly positive and they felt connected to the top of the organisation.

Second, constant communication helped to address the concerns of staff and their desire to know how change would affect them. Effective 'broadcasting' of information proved difficult enough in many departments. But communication was at its most effective when it was two-way. The 2011 CSPS showed that 55% of staff felt they were kept well informed by their organisation, but only 36% felt they had an opportunity to contribute their views before decisions that affect them were made.

One interviewee reflected that listening to staff talk about what was wrong in the department, and how to improve it, paid dividends later. When the change programme was presented back to them, staff felt they owned it.

Third, managers played a key role in explaining change to staff at team level, supporting their teams through difficult choices and helping them to plan for their future role or exit. But the ability of managers to perform these roles was felt to vary greatly within and across departments. Interviewees said that managers were rarely promoted on the basis of their management abilities and received minimal support to help them develop those skills. Some managers were felt to be very good at supporting their teams; others struggled.

DfID was one of the few departments where the ability to lead and manage staff was a key criterion in promotion and appraisals (see case study below).

Fourth, staff engagement also required change processes to be, and to be seen to be, fair and effective. Departments generally performed well here, but there were still grievances. One team in a large delivery department, for example, required all staff to go through a tough selection process grade by grade, from most to least senior. By the time the most junior grades were about to be selected, the team had already been cut below the level required. This made the rest of the process appear gratuitous and undermined credibility.

Case study 5. Department for International Development – prioritising staff engagement

The Department for International Development (DfID) has overhauled its work to improve the efficiency and effectiveness of delivering aid, while reducing its presence in a number of locations. DfID is already working in a leaner fashion than many of its international comparators, with running costs amounting to just 2% of total spending.

As well as reassessing the countries in which the department has a presence, there was renewed pressure to streamline back office costs. Despite consistently scoring well in the Civil Service People Survey for staff engagement, DfID's wide geographical spread presents the department with a unique staff engagement challenge, particularly at a time of sustained change.

The department has centred its efforts around two vital and interrelated areas: communication and management. Responding to a general perception among staff that the regular newsletter was no longer fit for purpose, the department has instituted a monthly all-staff meeting hosted by the permanent secretary and the directors general, which any member of staff, anywhere in the world may dial into from their office. This is supplemented by a new focus on tailoring messages, so that additional items targeted at relevant locations or job roles are included alongside core communications relevant to most staff across the department.

To reinforce their work on internal communications DfID has embedded staff engagement as a core capability for management roles. Recruitment for senior posts requires candidates to interact with a small group of staff from across the organisation to discuss and respond to the results of a recent people survey. Both the candidate and staff group are debriefed by an assessor, with the feedback from both elements feeding into the overall ranking of the candidate; unsuccessful candidates are given feedback on their performance and encouraged to re-apply.

This fits well with the department's use of staff feedback as the basis for the annual appraisal of the leadership team, underlining how central staff engagement is to those roles.

7. Prioritising change

Change is not just another programme to manage alongside business as usual. Leaders need to signal that change is core to the department by using the best and brightest and valuing the specialist skills of back office groups.

Interviewees frequently referred to half-finished, half-forgotten or abandoned change programmes in their department. Despite acknowledging that change and cuts were unavoidable in the current context, cynicism about change was still high. Overcoming this barrier required leaders to demonstrate clearly that change was a top departmental priority, a core part of their role and of the way the organisation works.

An important signal about the importance of a change programme was transmitted by who was working on it. Leading change successfully did not rely on a dedicated senior role but, as we have observed, having one has produced real focus and signalled intent in departments like MoJ. Similarly, we have observed in a number of departments that the choice of who works on the change agenda not only mattered to the quality of the analysis and options, but also demonstrated clearly that change was a departmental priority. Putting the best and brightest to work on change and taking quality resources from other priorities during a downsizing underlined the importance that the leadership attached to the work.

Similarly, the extent to which leaders valued specialist skills and expertise for managing change played a critical role. In particular, the change process has placed a new emphasis on formerly back office functions: internal communications and HR especially, but also finance and IT.

These teams have had to play a much more prominent role than during business as usual, supporting staff at all levels through the challenges of downsizing and reorganising, while also being cut themselves. But some departments have gone further, recognising that the skills these teams have are essential for managing change and encouraging more effective ways of working over the longer term.

In MoJ, for example, internal communications was not just focused on transmitting instructions and information but on getting a story across to staff to support better engagement and behaviour change. This was seen as a critical capability for the Transforming Justice programme.

By contrast, in other departments we observed, internal communications were poorly resourced and undervalued compared with the press office, for example.

Similarly, HR functions were critical to running the downsizing process, and, in departments like DCMS, also supported the rest of the business. The HR team supported managers to have the right conversations, thought strategically about what sort of staff the department needed and how to get them, as well as working on driving up performance.

Ultimately though, change had to be driven by leaders in the department. Departments that have attempted to drive change primarily from within corporate services have found a lack of credibility and buy-in across the department.

Case study 6. Department for Culture, Media and Sport – building change capability

The Department for Culture, Media and Sport is the smallest department in Whitehall and in the spending review period needs to find savings of 24% in its resource budget, including a 50% cut to administrative costs in the core department. Given the size of the department, change on this scale will inevitably impact the capacity of the entire department, requiring strong attention to its internal capability to effect change.

DCMS have taken the challenge seriously, and have changed the way that communications and HR are used in support of ongoing change. In addition, by restructuring the senior staff structure first, the department has been able to build capability in the senior leadership team to support this change.

On communications, the permanent secretary has personally led on staff communication with all-staff meetings and weekly emails, complemented with face-to-face engagement through a range of workshops and consultations. Communications have been actively pushed down the line via the development managers in the department to ensure that messages reach all staff.

In HR, the team have actively supported managers and senior staff to have the right conversations with their staff about the future department and their place in it. Moving HR and Communications to a central role during the transformation process, rather than continuing to label them as back office functions has allowed senior leadership in the department to mobilise existing departmental capability in support of change.

8. Providing effective governance and decision making

> Effective governance requires balancing assurance and decision making with the energy for and 'ownership' of change across the department.

Effective governance of change in departments came from combining central direction and oversight with ownership, energy and drive lower down the organisation. As an interviewee in the Department of Health said, an effective governance structure meant "everybody feels they own their changes, but the programme gives them structure so they can see where decisions get made".

This has created challenges for both the departmental centre and 'business units' that can never be fully resolved but need careful management. The challenges were most acute in large delivery departments between the corporate centre and delivery arms and in international-facing departments with a UK base and a dispersed network of offices and missions overseas. But even in small departments, different teams and areas of the business, like policy and corporate services, have had to work out what change meant for them.

Several departments have wrestled with how to provide robust assurance at the centre. Delivery departments like MoD and HMRC were running enormous and complex change portfolios bringing together around 80 major programmes each with their own SRO, governance and programme level assurance.

One major issue was with effective management information (MI). We found many departments struggled with developing good MI even on the financial savings attached to each project and programme. But, ultimately, the vast size and complexity of some portfolios meant assurance could never be guaranteed through information alone and required building open and honest relationships with programme leads to share issues and tackle defensive behaviour.

There was also the question of where risks were borne. In most cases the executive board was the ultimate owner of the change portfolio in a department. Leaders at the most senior level needed to be confident that, collectively, they owned the risk and were on track to deliver. A specific change board or committee could help tackle lower level issues beneath this but could not provide the ultimate authority required to take key decisions.

Yet, central oversight also created varying degrees of tension with the rest of the department. The challenge was always to demonstrate the effective value added – for example, by joining up dependencies and identifying a critical path for delivery – when this can also be slow and at odds with the desire to "get on with it" elsewhere.

The main danger in relaxing central oversight and allowing change to take place in isolation was that it was then difficult to understand the impact on the department overall. As one interviewee put it:

> *"The downside of allowing different business units to make their own cuts is that you don't have a sense of what the cumulative effect will be on the whole organisation."*

Despite the frequently siloed nature of departments, retaining central control and decision making was important in several departments. For whatever reasons, different areas had over or underachieved and it was very difficult to balance risk across the silos without central coordination.

Case study 7. H M Revenue and Customs – franchise model of governance

HMRC is one of the largest government departments. At the beginning of this spending review period it had an overall headcount of 66,000 and over 80 programmes in its change portfolio. Since its creation in 2005, HMRC has been continuously undergoing change, focusing on bringing in additional revenues, reducing running costs and improving customer services. It has already doubled compliance yield to over £16bn while making efficiency savings of £1.4bn.

The department went into the 2010 Spending Review with a clear strategy: to understand the needs and wishes of its customers. But the 2010 Spending Review asked even more of it: to make savings along with the rest of Whitehall and to perform its functions better in order to increase government revenues.

HMRC committed to making efficiency savings of 25% in real terms and reinvesting £917m of these savings to bring in an additional £7bn per year by 2014/15 on top of the £13bn to which it had already committed.

For a department of HMRC's size and complexity, it was essential to create effective decision-making structures to implement that change and strategy. The approach resembled a franchise model, and allowed the different programmes to be owned as closely as possible to where change was going to happen, while allowing for central oversight and coordination.

HMRC appointed a director general with overall responsibility for the transformation agenda. Change directors in each of the four main business lines report both to the director general for their line and the director general for change.

Despite concerns that these lines of accountability could become entangled, the department has successfully implemented its savings by using a governance structure that balances central vision and accountability with local knowledge of how best to make the changes.

Case study 8. Department of Health – governance supporting the Transition Programme

The Department of Health, along with the rest of Whitehall, is making large budget cuts and faces staff reductions of around 10%. At the same time the department is also implementing wide-ranging reform of the National Health Service (NHS).

These two areas of change together make up the Transition Programme – a break from the traditional view of the NHS and the department as two separate entities.

The Transition Programme consists of 24 separate programmes running within the department and in the NHS. The director general for Group Operations and Assurance oversees all programmes to provide assurance and manage cooperation between the separate strands.

Every programme has an SRO and a programme board, which is attended by the DG Group Operations and Assurance and their staff. Monthly reports are sent up to the top team, and there are clear milestones and risks for each of the individual programmes, with a conscious emphasis on keeping processes simple.

The top leadership at the department believe this governance structure has enabled them to plan reform successfully and sell it to staff. The department said:

"This structure works because everybody feels that they own their changes, but the programme gives them structure, so they can see where decisions get made. The transparency is really working."

The governance structure has helped the department and the NHS attempt to deliver their respective transformations alongside each other.

9. Building change into the department

Changing structures and processes may deliver the savings but will not create a better department without broader culture change. Departments have struggled to get to grips with this. Rather than trying to return to business as usual, departments need to embed new behaviour and start planning now for difficult choices ahead.

Many interviewees felt it was disconcerting to keep focusing on change, with the uncertainty and risk associated. This reflected a view in several departments, particularly those that have moved fastest, that it was best to get change over with in order to get back to business as usual.

Yet this has led some departments to declare their change programme complete without tackling behaviour change effectively or focusing on planning for the future. As one interviewee said:

> *"Nobody knows how [the department] is going to own and drive a legacy beyond the programme, particularly as there will be no dedicated staff to the change programme after September. The change team realise that the programme's biggest risk is lack of embedding."*

Almost all departments have produced statements about the kind of organisation they wanted to be. The descriptions tended to be similar, suggesting there was wide agreement on what kind of place Whitehall departments wanted to become. And yet much of this was recognisable from the *Fulton Report* and has proven stubbornly difficult to turn into reality.

The key problem was the gap between what departments say they want and what is really recognised and valued by leaders. The table below – developed at a cross-department Institute workshop – contrasts some of the key aspirations departments set out with what participants felt really happened.

Figure 6 – Contrast between departments' stated values and real world behaviour

Department values	Real world behaviour
People are our most important asset and we value management and leadership skills.	*"As long as they hit targets, don't need investment, feedback and time: don't ask me to do anything to make them better."*
We reward **collaborative** behaviour.	*"Fiefdoms are promoted/rewarded."*
Recruitment and promotion is fair and open; talent progresses wherever it is found in the organisation.	*"80% - but not when it's urgent or important." "Veneer of fair process frustrates people and progress."*
We value **innovation** and **creativity**.	*"So long as we don't have to change anything; don't take risks."*
We welcome **challenge** and actively seek **feedback** from our customers, our suppliers and our staff.	*"We listen, but don't do anything about it – we 'hear'."*

Source: IfG workshop, September 2012

Very few interviewees felt there had been much progress on this at all. Business executives at this workshop challenged departmental leaders to be much clearer about what behaviour they want to see and to be much harder in reinforcing them through promotions and potentially staff exits.

Similarly, wanting to get change 'over with' meant that some departments were not planning effectively for further rounds of savings. In the same way that some departments did not believe they would have to make savings on the scale set out in the 2010 Spending Review, there was a similar sense of denial around further savings. One interviewee said:

> *"The ostriches have put their heads back in the sand and just gone, you know, we've done it... I don't think they see the next wave coming."*

Those departments best placed to respond to further cuts had connected their change work to corporate strategy. Looking ahead in this way made change more deeply rooted in the department and gave leaders the time and opportunity to work collectively on the trade-offs and best options to put to ministers.

Case study 9. Ministry of Justice – connecting change with corporate strategy

The Ministry of Justice's transformation programme, Transforming Justice, began in 2009, with the vision of "better for less": a better justice system and department serviced by reduced resources.

From its inception, the programme was an important part of the department's strategy, and was collectively owned at executive board level. Given the uncertainty that surrounds any change of government, it was unclear if the original portfolio of 10 programmes would survive the 2010 election and the subsequent spending review. It survived both in part because it was designed with an eye to the forthcoming fiscal climate and was grounded as much as possible in policy choices that would have been palatable to all political parties.

The programme had become so embedded that it took on a renewed significance following the subsequent departures of the original DG Transforming Justice and the permanent secretary. Transforming Justice grew to a portfolio of 43 programmes, covering approximately half the savings the department was required to make by the 2010 Spending Review.

However, Transforming Justice is not just a delivery portfolio and the department is already looking ahead for future savings. Transforming Justice is the backbone of the department's corporate strategy, ready for possible future demands and the impact they will have on the department, while aiming to ensure continued delivery of better for less in the department.

4. Challenges ahead

Progress to date is fragile. Because Whitehall has acted quickly, gaps are already emerging between the rhetoric and the reality of change, which undermine its credibility and support among staff. There are also major risks ahead as austerity continues to bite, keeping up the pressure for further savings over many more years.

Credibility gaps

Change programmes are at very different stages in different departments. The most advanced have completed the formal aspects of downsizing and restructuring, realised the savings required in the 2010 Spending Review and disbanded their change teams. Others have back-loaded change and still have much further to go. Wherever departments lie on this spectrum, none has yet succeeded in fully embedding their change programme. Departments have proven to be very good at making the tangible structural and process changes asked of them, but have been much weaker when it comes to engaging staff and changing behaviour.

From middle managers to board members, staff have repeatedly identified two key gaps across departments.

Making change a reality

Ministers have described the changes taking place in Whitehall as "cutting waste" and making "back office savings" to protect the frontline. Departmental leaders have used phrases like "more for less", "better for less" and "smaller but stronger".

These political and civil service formulations matter when setting direction in departments. The difficulty is in sustaining these descriptions when staff – at all levels – see their department shrinking and services reduced or stopped. The gap between how change is described and the day-to-day experience can be large for staff who feel they are doing similar work in similar ways but working harder to make up for the reductions elsewhere in the department.

This gap between rhetoric and reality can easily undermine support for change. As one mid-level civil servant reflected, in the CSPS, there is a pervasive sense among staff that change is "simply about cuts, not about modernising". And a fast streamer argued that leaders should:

> *"move away from the sanitised language used to sell every hardship faced by staff... stop using the word 'change' to mask every difficult decision senior management need to make. Don't say change when you mean reduction".*

Further, as one interviewee pointed out, the imperative to make savings coupled with increased job insecurity had taken the department further away from being a confident, innovative organisation, becoming "quite nervous and possibly more risk averse".

What leaders say and do

When leaders communicate about change, their words need to match reality, and their behaviour – individually and collectively – needs to reflect and reinforce what is expected from staff across the organisation. As one interviewee pointed out, in challenging times staff "spot any deviation" when "senior leaders talk the talk but don't walk it".

In many departments there is a contradiction between what kind of organisation the department is aiming to be and the experience of what the department does on a daily basis responding to events. This highlights the difference between rhetorical commitments to change as a priority and the perceived behaviour of leaders responding in the same way to every 'crisis'.

Staff from one big delivery department felt the top priority for leaders should be to "provide consistent and strategic leadership… making decisions and sticking to them" rather than being "driven off course by short-term considerations".

Ministers also play a particularly important role here because, as one interviewee said, "what people worry about is that ministers have an endless appetite for new projects".

Similarly, when leaders talk about changing the culture and ways of working this is often not perceived to be matched by their behaviour and what is really rewarded and recognised. Particularly where leaders have emphasised being "one department", staff have been quick to identify any gaps in corporate behaviour at the top.

Promotion at senior levels has also been identified as sending a clear message about what is valued. Staff from across many departments felt that promotion was still too often based on favourites and proximity to ministers without reference to the behaviour and ways of working espoused by leaders.

Risks ahead

The Government has already acknowledged that the deficit will not be closed until at least 2016/17, with further difficult rounds of savings virtually inevitable. Interviewees generally characterised their current change programmes as "salami slicing… with some great big chunks" and many were clear that further cuts would require much more radical changes.

Leading change through multiple rounds of cuts over such a long timeframe presents huge risks.

A fragile leadership coalition

As austerity will continue for many years, the change process needs to be resilient enough to survive changes of ministers, permanent secretaries and even governments. This is an extremely tough challenge.

Some level of turnover among ministers and permanent secretaries is inevitable. Unlike in business, changes at the top have little to do with the best interests of the department, let alone its change plans. Successors are not chosen by the organisation and the timing of ministerial changes is based primarily on the electoral cycle rather than the needs of departments. Moreover, planning for working with a new government tends to be fairly speculative and there are no mechanisms for discussing current plans or future priorities, let alone building greater consistency across political parties.

Many departments will have to look at increasingly radical options for delivering services. And ministers will have to make tough political choices. One interviewee said:

> *"The only way to achieve a similar round of savings in future will be to make brave choices about what we actually do and don't do in government."*

And another that this would mean "we couldn't do what we're doing... further change to the money makes more radical options essential".

In this context, departments' ability to plan for the longer term around a broad consensus will become critical, but ironically, as one senior civil servant pointed out, "it is even harder to find agreement when there is no money around".

Departments continuing to work in isolation

Despite their shared interests, departmental change programmes have largely been driven in isolation from each other. But leaders in many departments believe they are now approaching the point where internal changes alone will not yield further large savings. As one interviewee said, "there's really nothing left to squeeze". This means collaborating will be essential, not optional, in future.

There is a risk that the usual barriers to joined-up working will prevent these savings being made. As the Institute has argued elsewhere, the 2010 Spending Review process reinforced siloed working through traditional bilateral negotiations between the Treasury and other departments.[36] The rapid process also left little time to plan for cross-government approaches to policy formulation and implementation.

However, this is not the only barrier and departments do not need to wait for another formal spending review process to begin to work more collaboratively. Institutional and cultural barriers need to be overcome. As one interviewee said, there "won't be an appetite for doing something across the government... It would be very hard to make the DGs work together".

Falling staff engagement

Change can be a draining experience for staff at all levels – whether they are leaders responsible for finding savings or staff going through redundancy selection processes while trying to deliver ever more. A precipitous drop in staff engagement would make realising future, more radical savings and changes to ways of working extremely challenging.

Leaders in several departments have described how hard it is to stay motivated when there is little personal incentive or prospect of a brighter future. One interviewee said:

> *"Obviously the emotional side was very difficult... Some directors telling people they hadn't been selected... meant very difficult conversations."*

For leaders responsible for driving change in their area of the department, the prospect of repeating this experience for years to come can be deeply demotivating.

Motivating staff and retaining the best people will also become increasingly difficult. For one interviewee, the single biggest risk was "motivating staff, particularly junior staff who see a bleaker future than when they joined". Keen to energise and motivate staff, several departments have established or renewed their 'people commitments' and 'people strategies' setting out how staff will be valued and supported.

However, staff across different departments felt that such commitments were being undermined by the added demands placed on them. And there may be self-defeating longer-term consequences. One middle manager said:

> *"Things have become rather dour and hair shirt, which in the long run will risk demotivation and poor retention of quality people."*

This was made more difficult by the mixed aptitude and ability of leaders and managers to support their teams through the hard realities of downsizing and redundancies. As one interviewee said, "weaker line managers, frankly, found it very difficult... to help people manage".

5. Recommendations

The progress made by departments so far is hard won and often impressive. But this is only the beginning of a process that will last for several years and require further savings to be made. Making the shift from cost cutting to deeper changes in ways of working will require leaders across Whitehall to hold onto early successes and address the gaps and risks identified in this report.

Our recommendations apply at two levels. First, they aim to support senior leaders to develop the most effective approach to change within their departments. There is no single prescription for how to do this but all departments will need to tackle how leaders work together and create greater resilience for the years ahead; make best use of the capabilities and expertise developed through the change agenda; and keep staff motivated and committed to new ways of working.

Second, our recommendations aim to address the most important systemic issues which require action from the Head of the Civil Service and the Cabinet Secretary. Addressing how departments work together more effectively is not a new issue but is now essential and will require a much sharper focus. Falling staff engagement is a risk across the Civil Service and needs to be prioritised and supported at the highest level. And the current model for building capability needs to change to recognise and reward specialist change expertise. There is also the question of how to build a more solid and stable leadership coalition with ministers and the opposition, though it is beyond the scope of this research to suggest specific solutions.

Departmental leaders, with support from ministers and non-executive directors, need to:

1. **Broaden the ownership of change within departments**
   Turnover among ministers, permanent secretaries and directors general makes further change fragile. By engaging director and deputy director cadres in setting the direction – and by giving them responsibility for leading key programmes – departments can create a more sustainable leadership base for change and signal a long-term commitment to staff across the department.

2. **Plan for the next round(s) of change now**
   Leaders must avoid making cuts where they are easiest. This requires departments to work beyond immediate priorities with permission from ministers and non-executive directors. Change teams need to be connected to corporate strategy so they can work up the best options, analysis and ideas to provide to ministers before difficult negotiations over future cuts begin.

3. **Give corporate functions a more strategic role**
   Leaders can no longer afford to see HR, finance, internal communications and IT as purely back office functions. These groups must play a much more strategic role in how departments operate and deserve greater representation on departmental boards. The specialist skills required to support change in each of these groups need to be recognised and valued, particularly in relation to key issues like the development of management information.

4. **Set a positive direction and get tough on engagement and changing behaviour**
   Engagement and behaviour change are critical to successful change but have been too easily overlooked. Leaders need to be able to explain what the future 'deal' is for staff in the department, the behaviour that is required and what is no longer acceptable, and attach explicit rewards and sanctions – including leaving the organisation. As DfID has shown, staff engagement needs to be made a core part of management and leadership and form part of the assessment for performance reviews and promotions.

Success also requires support from the Cabinet Secretary and the Head of the Civil Service to:

5. **Tackle the barriers to departments working together to make savings**
   Breaking the deeply ingrained cycle of siloed working requires committed leadership from the Head of the Civil Service, Cabinet Secretary and Civil Service Board. It will require: identifying the biggest opportunities for reform and sustainable savings; making changes to current Treasury rules and processes; and actively supporting those in departments to challenge existing priorities and siloed behaviour. This will go a long way to promoting a more unified approach to change across the Civil Service.

6. **Reinforce staff engagement as a top priority in departments**
   This requires the Head of the Civil Service to show personal commitment to staff engagement. Permanent secretaries should be held to account through their objectives on how they communicate with staff about change; support leaders and managers to motivate their teams; and act on the Civil Service People Survey results.

7. **Recognise and reward specialist change skills and expertise**
   Leading and managing major change effectively requires specialist skills and experience. The Civil Service Reform Plan recognises this as a skills gap, but leading change is not a recognised 'profession' so this model for strengthening capabilities will not work at present. Without explicit reward and recognition for the work of change teams and other groups, there is a risk that hard-won skills and experience will dissipate, and the Civil Service will start the next round of savings from an unnecessarily low base.

Annex – evidence base

The evidence for this report was collected from four sources.

1. **Working with departments**

   The Institute for Government has been working closely with a group of Whitehall departments to help them to reflect on the progress and areas for focus in their major change programmes.[37] IfG began this work in 2009 when invited by the Ministry of Justice to conduct a real-time evaluation of the Transforming Justice programme. Since then, the Institute has conducted well over 200 interviews and run 10 focus groups across these departments as well as reviewing and analysing relevant documents and data. This report draws anonymously on the insights generated by this work, only some of which is publicly available.

2. **Semi-structured interviews**

   From June to September 2012 the team conducted semi-structured interviews with 18 senior leaders responsible for driving the change programmes in 13 departments in Whitehall. Interviewees ranged from directors to permanent secretary level. Questions focused on senior leaders' views on the progress and challenges the department had faced so far.

3. **Private workshops**

   IfG hosted four private workshops in September 2012. The theme and structure of the workshops were determined in conjunction with the Advisory Group, members of which served as convenors and "problem owners" for three of the four sessions. The remaining session was convened in partnership with members of the Cabinet Office Employee Engagement Team.

   The workshops focused on:

   - working across departmental boundaries
   - staff engagement
   - culture and behaviour change
   - aligning civil service and political leadership.

   Combined, there were over 100 attendees at these workshops. These included senior leaders from across Whitehall as well as from ALBs, devolved and local government and the private sector.

4. Secondary sources

The report drew on:

- existing literature – see selected bibliography
- published headcount and budgetary statistics
- data from the Civil Service People Survey, which was kindly supplied by the Cabinet Office
- internal documents supplied by departments as part of the research process.

Selected bibliography

Related IfG publications

T Gash, J McCrae, and J McClory, *Transforming Whitehall Departments, Evaluation Methodology,* Institute for Government, 2011.

Institute for Government, *An Open Letter: Two Challenges and an Opportunity*, 2012.

Institute for Government, *Whitehall Monitor #14 – Analysis of Civil Service Staff Numbers*, October 2012, www.instituteforgovernment.org.uk/our-work/more-effective-whitehall/whitehall-monitor.

J McCrae, J Myers, and K Glatzel, *Undertaking a Fiscal Consolidation: A Guide to Action*, Institute for Government, 2009.

J McCrae, J Page, and J McClory, *Transformation in the Ministry of Justice, 2011 Interim Evaluation Report*, Institute for Government, 2011.

S Parker, A Paun, J McClory, and K Blatchford, *Shaping Up – A Whitehall for the Future*, Institute for Government, 2010.

J Purnell, and L Lewis, *Leading a Government Department – The First 100 Days*, Institute for Government, 2012.

J Rutter, *Undoing GOD's work? Will Gains Women Made at the Top of Whitehall Prove Short-lived? – update*, Institute for Government Blog, August 2012: http://www.instituteforgovernment.org.uk/blog/4780/undoing-god%E2%80%99s-work-will-gains-women-made-at-the-top-of-whitehall-prove-short-lived-update/

Government and other official publications

HM Government, *The Coalition: Our Programme for Government*, May 2010.

Cabinet Office, *Capability Reviews: An Overview of Progress and Next Steps*, December 2009.

Cabinet Office, *Civil Service People Survey 2011 – Civil Service Benchmark Results*, November 2011.

Cabinet Office, *Civil Service People Survey 2011 – Summary of Findings*, February 2012.

Cabinet Office, *The Context for Civil Service Reform*, June 2012, www.civilservice.gov.uk/wp-content/uploads/2012/03/The-Context-for-Civil-Service-Reform-v2.pdf.

Cabinet Office, *Frances Maude reveals further savings that beat expectations*, Cabinet Office website, 2012, www.cabinetoffice.gov.uk/news/francis-maude-reveals-further-savings-beat-expectations.

HM Treasury, *Spending Review*, 2010.

National Audit Office, *Cost Reduction in Central Government: Summary of Progress*, National Audit Office, 2012.

Public Administration Select Committee, *Smaller Government: What do Ministers do?* House of Commons, 2011.

Public Administration Select Committee, *Good Governance and Civil Service Reform: 'End of Term' Report on Whitehall Plans for Structural Reform*, House of Common, 2011.

Private sector publications

C Baker, A Brown and J Manget, *Why It's So Hard To Cut Costs in Government*, BCG Perspectives, 2012: www.bcgperspectives.com/content/articles/public_sector_why_its_so_hard_to_cut_costs_in_government/

Deloitte, *In the Hot Seat: Reducing Costs in Public Sector Organisations in an Age of Austerity*, 2010.

M Gardini, G Giuliani, and M Marricchi, 'Finding the Right Place to Start Change', *McKinsey Quarterly*, November 2011.

S Keller, and C Price, *Beyond Performance: How Great Organizations Build Ultimate Competitive Advantage*, McKinsey & Company, 2011.

KPMG, *Tough Choices Ahead: The Future of the Public Sector*, 2009.

Academic literature on public sector change

M Beer, and N Nohria, 'Cracking the Code of Change', *Harvard Business Review*, May-June 2000.

R Coram, and B Burnes, 'Managing Organisational Change in the Public Sector – Lessons from the Privatization of the Property Service Agency', *International Journal of Public Sector Management*, vol.14, no.2, 2001.

S Fernandez and HG Rainey, 'Managing Successful Organizational Change in the Public Sector', *Public Administration Review*, March/April, 2006.

S Kelman, Unleashing Change: A Study of Organisational Renewal in Government, Brookings Institution Press, 2005.

J Kotter, *Leading Change*, Harvard Business Press, 1996.

F Ostroff, 'Change Management in Government', *Harvard Business Review*, May 2006

PJ Robertson, and SJ Seneviratne, 'Outcomes of Planned Organizational Change in the Public Sector: A Meta-Analytic Comparison to the Private Sector', *Public Administration Review*, vol.55, no.6, 1995.

H Sminia and A van Nistelrooij, 'Strategic Management and Organization Development: Planned Change in a Public Sector Organization', *Journal of Change Management*, vol.6, no.1, 2006.

International examples

Australia

Advisory Group on Reform of Australian Government Administration, *Ahead of the Game: Blueprint for the Reform of Australian Government Administration*, Australian Government Department of the Prime Minister and Cabinet, 2010.

C Aulich 'Reconstructing the Australian State: the privatisation factor', in J Springford (ed.), *Dealing with Debt: Lessons from Abroad*, Centre Forum and Ernst & Young, 2010.

Canada

H Bakvis, 'Transport Canada and Program Review' in P Aucoin and DJ Savoie (eds.), *Managing Strategic Change: Learning from Program Review*, Canadian Centre for Management Development, 1998.

J Bourgon, *Program Review: The Government of Canada's Experience of Eliminating the Deficit, 1994-99: a Canadian Case Study*, Institute for Government, 2009.

J Gold, M Mendelsohn, and J Hjartarson with R. Shlozberg, *Fiscal Sustainability and the Future of Public Services: A Shifting Gears Progress Report*, Mowat Centre, 2011.

Mowat Centre, School of Public Policy and Governance, KPMG, *Shifting Gears: Paths to Fiscal Sustainability in Canada*, Mowat Centre, 2010.

Ireland

Department of Public Expenditure and Reform, *Public Service Reform Plan*, 2011.

J Springford (ed.) *Dealing with Debt: Lessons from Abroad*, Centre Forum and Ernst & Young, 2010.

Sweden

P Nuder, 'Sweden's Social Democratic Consolidation' in Springford, J (ed.), *Dealing with Debt: Lessons from Abroad*, Centre Forum and Ernst & Young, 2010.

Other

The Guardian, 'National debt and deficit data for every OECD country', Guardian Datablog, May 2010: http://www.guardian.co.uk/news/datablog/2010/may/27/debt-deficit-oecd-countries-data

H Cleary and R Reeves, *The 'Culture of Churn' for UK Ministers and the Price We All Pay*, Demos, 2009.

List of acronyms

ALB	Arm's-length body
CSPS	Civil Service People Survey
CSRP	Civil Service Reform Plan
CSR	Comprehensive Spending Review
DD	Deputy director
DG	Director general
EA	Executive agency
FTE	Full-time equivalent
GDP	Gross domestic product
HR	Human resources
IfG	Institute for Government
IT	Information technology
MI	Management information
NDPB	Non-departmental public body
NED	Non-executive director
OECD	Organisation for Economic Cooperation and Development
ONS	Office for National Statistics
SCS	Senior civil service
SoS	Secretary of State
SRO	Senior responsible owner

Government departments and agencies, parliamentary and independent bodies

BIS	Department for Business, Innovation and Skills
CO	Cabinet Office
DCLG	Department for Communities and Local Government
DCMS	Department for Culture, Media and Sport
DECC	Department for Energy and Climate Change
DfE	Department for Education
Defra	Department for Environment, Food and Rural Affairs
DfID	Department for International Development
DfT	Department for Transport
DH	Department of Health
DWP	Department for Work and Pensions
FCO	Foreign and Commonwealth Office
HMRC	HM Revenue and Customs
HO	Home Office
MoD	Ministry of Defence
MoJ	Ministry of Justice
MPA	Major Projects Authority
NAO	National Audit Office
PAC	Public Accounts Committee
PASC	Public Administration Select Committee

Endnotes

1. Cabinet Office: http://www.cabinetoffice.gov.uk/news/francis-maude-reveals-further-savings-beat-expectations
2. Institute for Government Whitehall Monitor 14 – *Analysis of Civil Service Staff Numbers*, http://www.instituteforgovernment.org.uk/our-work/more-effective-whitehall/whitehall-monitor
3. Cabinet Office (June 2012) *Context for Civil Service Reform* http://www.civilservice.gov.uk/wp-content/uploads/2012/03/The-Context-for-Civil-Service-Reform-v2.pdf
4. Gardini et al in McKinsey Quarterly (Nov, 2011) *Finding the Right Place to Start Change*
5. Cabinet Office (2012) *Civil Service People Survey 2011: Summary of Findings*
6. Parker, Paun, McClory, Blatchford (2010) *Shaping Up: A Whitehall for the Future* (Institute for Government)
7. The Guardian DataBlog: http://www.guardian.co.uk/news/datablog/2010/may/27/debt-deficit-oecd-countries-data
8. The Guardian DataBlog: http://www.guardian.co.uk/news/datablog/2010/may/27/debt-deficit-oecd-countries-data
9. HM Treasury: *Spending Review 2010*
10. Sir Jeremy Heywood speaking at the Institute for Government: http://www.instituteforgovernment.org.uk/publications/civil-service-reform-0
11. See Bourgon (2009) The Government of Canada's Experience Eliminating the Deficit, 1994-99: a Canadian case study (Institute for Government) and Bakvis, H., 'Transport Canada and Program Review' in P. Aucoin and D.J. Savoie (eds.), *Managing Strategic Change: Learning from Program Review*, Canadian Centre for Management Development, 1998.
12. Institute for Government (2012) *An Open Letter: Two Challenges and an Opportunity*
13. Cabinet Office: http://www.cabinetoffice.gov.uk/news/francis-maude-reveals-further-savings-beat-expectations
14. Institute for Government *Whitehall Monitor 14 – Analysis of Civil Service Staff Numbers*, http://www.instituteforgovernment.org.uk/our-work/more-effective-whitehall/whitehall-monitor
15. Institute for Government *Whitehall Monitor 14 – Analysis of Civil Service Staff Numbers*, http://www.instituteforgovernment.org.uk/our-work/more-effective-whitehall/whitehall-monitor
16. Cabinet Office (June 2012) *Context for Civil Service Reform* http://www.civilservice.gov.uk/wp-content/uploads/2012/03/The-Context-for-Civil-Service-Reform-v2.pdf
17. Institute for Government Whitehall Monitor 14 – *Analysis of Civil Service Staff Numbers*, http://www.instituteforgovernment.org.uk/our-work/more-effective-whitehall/whitehall-monitor
18. Cabinet Office: http://www.cabinetoffice.gov.uk/news/francis-maude-reveals-further-savings-beat-expectations

19. Gardini et al in McKinsey Quarterly (Nov, 2011) *Finding the Right Place to Start Change*

20. Cabinet Office (2012) *Civil Service People Survey 2011: Summary of Findings*. It should be noted that the CSPS is based on a large number of Civil Service organisations beyond the main Whitehall departments.

21. The two best examples were Department for Work and Pensions between 2004 and 2010 and HM Revenues and Customs from 2006 to 2008. Both delivered externally validated efficiency savings and large reductions in staff.

22. Cabinet Office: http://www.cabinetoffice.gov.uk/news/francis-maude-reveals-further-savings-beat-expectations

23. McCrae, Myers and Glatzel: *Undertaking a Fiscal Consolidation: a Guide to Action* (Institute for Government, 2010)

24. National Audit Office (2012) *Cost Reduction in Central Government*

25. General Electric website, 'Past Leaders': http://www.ge.com/company/history/bios/john_welch.html

26. Wikinvest data on market capitalisation: http://www.wikinvest.com/stock/Apple_(AAPL)/Data/Market_Capitalization/2001

27. The Fulton Report notes the following, for example: "at the middle and lower levels there is too much emphasis on seniority"; "there is not enough awareness of how the world outside Whitehall works, how government policies will affect it, and the new ideas and methods which are developing in the universities, in business and in other walks of life"; "the public interest must suffer from any exclusiveness or isolation which hinders a full understanding of contemporary problems or unduly restricts the free flow of men, knowledge and ideas between the Service and the outside world; nor is there enough encouragement and reward for individual initiative and objectively measured performance; for many civil servants, especially in the lower grades, promotion depends too much on seniority", and "the administrative process is surrounded by too much secrecy. The public interest would be better served if there were a greater amount of openness."

28. Cleary and Reeves (2009) *The 'Culture of Churn' for UK Ministers and the Price we all Pay* (Demos)

29. See analysis by Jill Rutter in 'Undoing GOD's work? Will Gains Women Made at the Top of Whitehall Prove Short-lived?' http://www.instituteforgovernment.org.uk/blog/4780/undoing-god%e2%80%99s-work-will-gains-women-made-at-the-top-of-whitehall-prove-short-lived-update/

30. Boston Consulting Group Perspectives (2012) *Why It's So Hard to Cut Costs in Government*

31. Eric Pickles writing in the Local Government Association *First Magazine*, 20 September 2012: http://www.local.gov.uk/web/guest/first-features/-/journal_content/56/10171/3718886/NEWS-TEMPLATE

32. Cameron, D. 'Building a better future' speech in Cardiff, 6th March 2011: http://www.conservatives.com/News/Speeches/2011/03/David_Cameron_Building_a_better_future.aspx

33. Gash and McCrae (2010) *Transformation in the Ministry of Justice: 2010 interim report*

34. Cabinet Office (2012) *Civil Service People Survey 2011: Summary of Findings*

35. Representative quotes from the qualitative responses to the 2011 Civil Service People Survey supplied by the Cabinet Office

36. Institute for Government *An Open Letter: Two Challenges and an Opportunity* (Institute for Government, 2012)

37. See Gash, McCrae, McClory (2011), *Transforming Whitehall Departments: Evaluation Methodology* and McCrae, Page, McClory (2011), T*ransformation in the Ministry of Justice: 2011 Interim Evaluation Report*

The Institute for Government is here to act as a catalyst for better government

INSTITUTE FOR GOVERNMENT

The Institute for Government is an independent charity founded in 2008 to help make government more effective.

- We carry out research, look into the big governance challenges of the day and find ways to help government improve, re-think and sometimes see things differently.
- We offer unique insights and advice from experienced people who know what it's like to be inside government both in the UK and overseas.
- We provide inspirational learning and development for very senior policy makers.

We do this through seminars, workshops, talks or interesting connections that invigorate and provide fresh ideas.

We are placed where senior members of all parties and the Civil Service can discuss the challenges of making government work, and where they can seek and exchange practical insights from the leading thinkers, practitioners, public servants, academics and opinion formers.

Copies of this report are available alongside other research work at:

www.instituteforgovernment.org.uk
November 2012

2 Carlton Gardens
London
SW1Y 5AA

Tel: +44 (0) 20 7747 0400
Fax: +44 (0) 20 7766 0700
Email: enquiries@instituteforgovernment.org.uk

The Institute is a company limited by guarantee registered in England No. 6480524

Registered Charity No. 1123926