The 'Next Steps' Agency Model in UK Central Government 1988-1998 with

Special Reference to the Benefits Agency

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Abstract

The research explores three related questions about the 'Next Steps' agency model and agencification processes in the UK central state between 1988 and 1998. First, how did the creation of agencies, or agencification, work in the period and was the reform a substantial change? Second, why was the reform adopted and did agencies bring about benefits in the delivery of services? Third, what is the likely course of future developments in the use of agencies?

The first question is explored in Part One. The agency model is identified as a set of institutions, or structures, for delivering public services proposed by government actors who developed the 'Next Steps' reform. The UK central state made extensive use of the agency model in the period 1988 to 1998. Over the period, 155 agencies were created. By 1998, 65 per cent of civil servants worked in 138 agencies. The 'Next Steps' reform was predominately mitigated agencification, where there was already some separation of activities prior to the reform. This type of agencification accounted for 69 per cent of cases. There was pure agencification in 14 per cent of cases, in which the reform was an even more significant reorganisation; the case of the Benefits Agency was an example of this form of agency creation. However, in 14 per cent of cases, there was nominal change and the reform was largely a relabelling exercise. New function agencification was found in only 2 per cent of cases.

The second question is explored in Part Two. The official justifications for the reform were fragmented and, at some points, inconsistent. The public interest model, based on official accounts, suggests that senior officials and politicians had the goals of delivering public services in an efficient and effective manner with maximum economy, expressed through minimising transaction costs associated with delivering services. Agencies promoted this goal in handling routine, executive activities rather than non-routine, policy activities. However, the public interest model does not seem to be consistent with disputes between parts of the central state, the bracketing of nominal changes with more significant ones under the overall 'Next Steps' reform banner, and use of the

agency model for non-routine policy work were inconsistent with the model. The performance of agencies did not match all the expectations of the public interest model.

The institutional rational choice approach, through Patrick Dunleavy's bureau-shaping model, makes a substantial contribution to understanding why the reform occurred. But the original model is inadequate for explaining the 'Next Steps' reform. The mark II bureau-shaping model overcomes the inadequacies of the original model and is an important theoretical advance. The model is supported by evidence about developments during the period. Senior officials in the departments saw their role primarily as policy work rather than the direct, hands on, management of executive activities. Entrepreneurial officials in the Cabinet Office Efficiency Unit had career incentives to come up with innovative organisational solutions to problems of public service delivery that were successfully implemented. They provided senior officials in departments with the agency model as a piece of bureau-shaping technology, enabling them to respond to politicians by passing on executive work to agencies. In departments with agencies, 70 per cent of senior officials ended up working in the parent department after the creation of agencies.

The third question is explored in Part Three. The mark II bureau-shaping model suggests that bureau-shaping strategies will continue to be an important influence on reform in the future as will entrepreneurial officials in central units who have incentives to come up with new mechanisms for improving public services. The most likely future for most agencies appears to be continued use of the agency model with closure of implementation gaps. These developments are likely to be supplemented by additional mechanisms in agencies with moderate performance problems. In a few cases of very poor performance more radical changes are more likely. Partial dismantling of the agency model may occur in the Benefits Agency.

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List of Abbreviations

BA: Benefits Agency

BEM: Business Excellence Model

BFI: Benefit Fraud Inspectorate

DSS: Department of Social Security

DSS HQ: Headquarters section of the Department of Social Security

FMI: Financial Management Initiative

GAO: General Accounting Office (in US)

IAC: Independent Administrative Corporation (in Japan)

ITSA: Information Technology Services Agency

LCD: Lord Chancellor's Department

NAO: National Audit Office

NPM: New Public Management

OECD: Organisation for Economic Co-operation and Development

PIU: Performance and Innovation Unit

PCA: Parliamentary Commissioner for Administration

PBO: Performance Based Organisation (in the United States)

PSA: Public Service Agreement

UK: United Kingdom of Great Britain and Northern Ireland

US: United States of America

Introduction

The research explores three related questions about the 'Next Steps' agency model and agencification processes in the UK central state between 1988 and 1998. First, how did the creation of agencies, or agencification, work in the period and was the reform a substantial change? Second, why was the reform adopted and did agencies bring about benefits in the delivery of services? Third, what is the likely course of future developments in the use of agencies?

The first section of this chapter examines the official account of the reform and identifies problems with the account as an answer to these questions. The second section argues that existing academic research, whilst offering valuable insights, does not progress understanding much beyond the official account. The third section suggests that an analytical approach is required to map the agency reform using the agency model in order to evaluate official claims that it was a significant reform. The institutional rational choice approach offers an alternative to the official explanation of the reform. Within institutional rational choice, the bureau-shaping model developed by Patrick Dunleavy (1991) is a potential explanation for the reform that suggests likely future trends. However, the model requires further development to be useful for exploring agencies.

Section One: The Official Account

The official account of 'Next Steps' is taken as the starting point for trying to answer the three research questions. The official account was produced by government bodies, including the Cabinet Office, HM Treasury and other departments. In answer to the first question about the nature of the agency reform, official accounts set out the core features of 'Next Steps' agencies. The reform's name famously came from the title of a Report, Improving Management in Government: The Next Steps conducted by the Prime Minster's Efficiency Unit and published in 1988 (Efficiency Unit 1988). The Report suggested that agencies be established to carry out the executive functions of government, distinct from policy work. Responsibility for each agency was to be delegated to

a chief executive who would handle day to day operations within a framework of policy objectives and resources set by the relevant minister in consultation with the Treasury (Efficiency Unit 1988: 9-10). The Government accepted these proposals in an announcement to the House of Commons by the Prime Minister on the 18th February 1988 (Goldsworthy 1991: 10).

However, the official account is of limited use for exploring variety in the agencies that were created because it lacked a framework to explore variation beyond the core characteristics of agencies in a systematic way. A crude attempt to identify types was made by an Efficiency Unit report in 1991. The typology distinguished mainstream, regulatory and statutory, specialist service agencies and peripheral agencies (Efficiency Unit 1991: 22-25). The categories were not mutually exclusive, for example, many agencies were simultaneously regulatory and specialist. There was no indication of how to apply the framework in these cases and the framework was not used to classify the set of all agencies. A key aim of the research developed here is to offer a clear classificatory scheme for different types of agencies applicable to bodies created under the banner of the 'Next Steps' reform.

The official account presented the reform as a significant change. The first agency, the Vehicle Inspectorate, was officially launched in August 1988. By 1998, there were 138 agencies employing 65 per cent of all civil servants with further departments operating on 'agency lines' (Cabinet Office 1998). The White Paper Continuity and Change, published in 1994, looked back on progress in the reform and stated '...Next Steps has had a major impact on the shape and culture of the Civil Service' (Prime Minister, the Chancellor of the Exchequer, and the Chancellor of the Duchy of Lancaster 1994: 12-13). The White Paper continued 'The success of Next Steps has been in its effective implementation' (Ibid 1994:13). Officials interviewed for this study echoed this interpretation. A Cabinet Office official commented 'Around Whitehall, the Next Steps reform is generally seen as a major success story' (I3 Senior Official, Cabinet Office). This interpretation was shared by staff in the Benefits Agency who commented 'Agencies are one of the biggest changes that happened to government in recent years' (I13, Senior Official, Benefits Agency).

However, there was no systematic analysis of the reform, comparing the creation of individual agencies with increased use of core features of the agency form. Such an analysis is necessary to identify instances where the creation of an agency was a major change, involving transformation of existing structures to agency forms, as different from cases where it largely constituted a re-labelling exercise, where units already had substantial autonomy or separate performance targets before the reform. The research developed here questions the official account to explore whether the reform was a substantial change or merely a nominal exercise.

The official justification for the reform does not provide a convincing answer to the second question of why the reform came about. Official accounts did not give clear reasons why the changes were supposed to be beneficial. An account written by a member of the team involved in setting up agencies concluded 'Above all, reforms that will work in practice and produce results must be based on detailed knowledge of what actually happens in an organisation, not on theories about what should be happening' (Goldsworthy 1991:39). This suggests a common sense approach, with theory being seen as largely irrelevant because it is not only normative but also utopian.

However, fragments of a rationale for the reform were provided in official accounts. One reason was improving the operation of government in terms of economy, efficiency and effectiveness. The original 'Next Steps' report suggested that increased economy would result from the recommendations, estimating a saving of over five per cent of Civil Service administrative or 'running' costs (Efficiency Unit 1988:16). But elsewhere the report argued that agencies were needed to deliver government services as 'effectively as possible' (Efficiency Unit 1988:9) and that the primary aim was to 'improve the delivery of services both to the public and Ministers' (Efficiency Unit 1988:16). From this account, it appears that the reform was supposed to bring benefits in economy, efficiency and effectiveness, although the balance between the benefits was not specified.

The official accounts did not clearly specify the mechanisms by which agencies were supposed to ensure good performance of executive activities and the agency reform was expected to bring about improvements. There was conjecture that management change and performance improvements were more easily brought about within discrete identified units, headed by a manager with clear responsibilities, than in larger, more diverse organisations (Prime Minister et al 1994:13). This research puts these fragmented parts of the official justification together as an answer to the second question.

There has been no systematic evaluation of whether agencies achieved what was expected of them or whether the agency reform brought about improvements. Instead there were some general, positive, comments about the reform. A White Paper in 1994 asserted that 'the Next Steps initiative has fundamentally altered the way the Civil Service is managed' (Prime Minister et al 1994:13). The annual reviews of agencies, published from 1990, mostly commented favourably on performance. The official in charge of the reform enthused in the first review that 'As this Review shows, Next Steps is working where it matters – out there on the ground. Agencies are improving the way they give value for money and deliver services to their customers. People are showing what they can do when they are enabled to give of their best rather than just told to do so.' (Prime Minister and Minister for the Civil Service and the Minister of State, Privy Council Office 1990:7).

Interviews with officials conducted for this study reflected this view. An official in the Cabinet Office stated 'It is difficult to evaluate performance across the board because agencies claim to be unique, so it is fair to say that there has only been a limited survey of overall performance, although where we do have information it is generally positive [about performance] (I1 Senior Official, Cabinet Office). Similarly, an official in the Benefits Agency commented 'The [agency] structure has definitely allowed us to deliver a better service than before' (I4, Official, Benefits Agency). However, these statements are assertions rather than conclusions based on clear evidence and do not, by themselves, provide a convincing case that the official justification was adequate.

The official accounts do not help explore the third question about the way agencies are likely to be used in the future. There were government statements suggesting that agencies were likely to be a continuing feature of the central state. The annual reviews of agencies suggested that, whilst changes might be made in individual agencies, the agency form was likely to remain in continued use. No plans for a substantial reversal of the reform were announced (Chancellor of the Duchy of Lancaster 1997: vi-viii; Chancellor of the Duchy of Lancaster 1998:iv; Minister for the Cabinet Office 1999:v-vi). However, the official account does not generate expectations about whether agencies will be favoured in the future, or whether alternative forms of organisation will be used instead. This research explores likely futures for use of agencies.

Section Two: Gaps in Existing Academic Accounts

The reform has received some interest from academics but the existing accounts offer only limited answers to the three questions that motivate the research. The academic studies of 'Next Steps' relied to heavily on uncritically adopting official descriptions of the reform and the official justifications for why the changes came about. In answering the first question about the nature and scale of reform, existing studies have not explored variety in use of agencies or agencification in a systematic way. The first book on agencies, Transforming Central Government (Greer 1994) was valuable in bringing together a lot of official documentation on agencies in one place. It offered a definition of the 'Next Steps' agency concept based on entities called an agency in official accounts, with most agencies involving the separation of steering or policy making, from rowing or service delivery and the use of performance contracts to set levels of service (Greer 1994:23-26). But Greer uncritically accepted official accounts about increased use of the model rather than exploring whether setting up agencies marked a substantial change. Greer's study did not offer a clear benchmark for evaluating the significance of the reform in analytical terms. This approach led to a conclusion echoing the official line that the reform was 'transforming the face of Whitehall' (Greer 1994:23).

The existing studies do not explore variety in agencies in a systematic way. Some studies have stressed the unique features of different 'agencies' and grouped them primarily by listing under the responsible department (Hogwood 1995,1997). More ambitiously, Greer developed a typology for exploring the agencies in the Department of Social Security (Greer 1994:18-19). But the typology was not applied consistently. The same agencies were classified as different types in different research using the same typology (Greer 1994: 41, 1995:193). More fundamentally, the types were not based on a clear theoretical rationale for why differences were significant, in terms of why the form was chosen and the effects on the performance of using the type. The other major work on Next Steps had similar limitations. An edited book, <u>Next Steps: Improving Management in Government?</u> was published in 1995 (O'Toole and Jordan 1995). Whilst offering some valuable insights about particular agencies, the book did not pay much attention to distinguishing types of agency creation and their differing significance across the central state. Instead each of the main chapters dealt with a different aspect of 'Next Steps' in a different agency.

The most useful existing work relating to agencies is on the 'New Public Management'. This research is a conceptually informed attempt to map changes in public service delivery structures in different countries and to discern patterns. In the early 1990s, Hood noted NPM changes in Anglo-American countries. These involved more 'professional' management in the public sector, explicit standards and measures performance, greater emphasis on output rather than input controls, shift to disaggregation of units in the public sector, move towards greater competition in the public sector, stress on private sector styles of management practice and stress on greater discipline and parsimony in resource use (Hood 1991: p4-5). A similar trend towards more 'hands off' steering based control of networks of public and private sector actors responsible for delivering services was characterised as a movement away from traditional 'government' towards 'governance' (Rhodes 1997). NPM trends throughout OECD countries have been noted (James and Manning 1996; OECD 1995;1998). However this literature has developed at a high level of abstraction from individual reform initiatives. The use of agencies is central to NPM developments but its relationship with these broader changes is under-analysed. The research

developed here aims to situate developments with agencies in the UK central state within the broader context of NPM changes.

Existing studies are of limited help for pursuing the second question of why the reform occurred and the third question about likely future developments. The studies did not build distinctive explanations of the reform as alternatives to official accounts. Instead, the studies relied on officials' own testimony which repeated the justifications given in the official account (see for example Kemp 1990, Butler 1991, Butler 1994). The existing studies constructed explanations based on these official sources, positing some mix of motivations about improved efficiency, economy and effectiveness (see Zifcak 1994, Greer 1994, Drewry 1994, O'Toole and Jordan 1995, Massey 1995, Hogwood et al 1997). O'Toole and Jordan pointed out some of the contradictions in the official position, such as the disputes between Cabinet Office and Treasury officials in the early days of the reform (O'Toole and Jordan 1995:3-17). The recognition of officials' conflicting positions is an important finding. But the study did not go on to develop an explanation for the reform incorporating this discovery. Their account did not explain why officials and politicians came together in the way that they did to influence the reform.

In contrast, Greer mentioned some approaches that potentially offer an explanation for the reform, including public choice theory and transaction cost analysis (Greer 1994:15-16). However, they were outlined in just two pages and were not developed in any depth or applied to the developments surveyed in the book. For this reason, Greer's work shares the limitations of the official account, including not specifying the mechanisms by which agencies were supposed to bring about good performance, and did not include a systematic evaluation of whether agencies achieved the aims of reformers. Both the Greer and O'Toole and Jordan books were written just after the reform began to catch on, with many new 'Next Steps' agencies being set up in the early 1990s. At this time there was not much of a track record of agencies' effectiveness and the material was not available to perform a systematic evaluation of the effects of the reform. Because these studies shared the atheoretical approach of the official account they did not generate expectations about future developments in the reform. The

existing studies are of limited help in attempting to answer the third research question about likely future trends in use of agencies.

Section Three: Mapping Change Using the Agency Model and Explaining Change Using Institutional Rational Choice and the Bureau-shaping Model

The first question is explored in Part One. The agency model is identified as a set of institutions, or structures, for delivering public services proposed by government actors who developed the 'Next Steps' reform. The model contrasts agencies with alternative forms of organisation and identifies agencies as part of the New Public Management. Within the overall agency model, a typology of agencies is developed, derived from the official account, to explore variety in a systematic way to classify agencies by type. Agency creation, or agencification, is analysed to see if it was a substantial reform, as official accounts suggest, or a largely nominal change. A model of different degrees of change is developed as a benchmark for assessing the significance of the reform and applied to developments during the period

The research explores the first question in two ways, an overall mapping of the use of agencies and a case study. The overall mapping uses a quantitative survey of developments in use of the agency model, drawing on official documentation and other sources. The survey identifies the overall pattern of change. The case study of the largest agency, the Benefits Agency, uses quantitative and qualitative analysis of official documents, surveys and interviews with officials. The case study involves an in depth analysis of the creation and development of an agency. It is not possible to use the case study simply to generalise to the full population of agencies (Yin 1984). However, the Agency constituted a considerable part of the overall reform because it employed around a quarter of all civil servants operating in agencies during the period (Chancellor of the Exchequer 1999:9; Secretary of State for Social Security and Chief Secretary to the Treasury 1999:79). Findings relating to the Benefits Agency have some relevance for other agencies, because they used similar structures, and reveals differences between this case and the general pattern. The

analysis enables the official view, that the reform was a major transformation, to be evaluated both for the overall reform and for the case of the Benefits Agency.

The second question, of why the reform occurred, is explored in Part Two. The explanation proceeds in two stages. Firstly, the adequacy of the official justification for the reform is explored using the public interest model. The model offers a coherent rationale for the change in terms of the improvements in economy, efficiency and effectiveness suggested by officials in the original 'Next Steps' report. The model is evaluated as an explanation of developments during the period, including an analysis of whether agencies brought about performance benefits. The inconsistencies between the public interest model and observations of the changes suggest that it is not an adequate explanation of the agency reform.

Institutional rational choice is used to provide an explanation more consistent with developments in the period. Rational choice is a theoretical perspective that attempts to apply the methods of economics to studying politics (Mueller 1989). This perspective specifies micro foundations for social phenomena, grounded in the instrumental action of individuals and their interaction in pursuit of their interests. In a sense, all rational choice modelling is institutional because it involves specification of the structures that individuals build to pursue their interests and structures in which they operate, enabling and restricting the options available to them (Dowding 1994). In the context of this research, the institutions are the structures of the UK central state.

There are many potential theoretical explanations of administrative reform (Caiden 1991;Lane 1993; Howlett and Ramesh 1995). However, there are several reasons for using the institutional rational choice approach. The approach offers a novel perspective for exploring why the reform occurred, going beyond existing studies. There has been a general lack of use of the approach in UK public administration research. Rhodes comments 'there have been few such [rational choice] studies in British Public Administration...If rational choice is a major alternative to Public Administration, then its potential has yet to be realised.' (Rhodes 1997:175).

The study uses institutional rational choice in a way that avoids some of the objections to the approach. In particular, rational choice has been criticised for being driven by the formal modelling techniques, which are chosen and then applied to a suitable case rather than as a way of exploring interesting phenomena and research questions. Those using the approach stand accused of getting research the wrong way around, and failing to contribute very much to understanding of empirical phenomena (Green and Shapiro 1996). In contrast, this research starts with a the three research questions and uses institutional rational choice as a theoretical tool for exploring them

Within the institutional rational choice approach, the research uses insights from Patrick Dunleavy's (1991) bureau-shaping model. The bureau-shaping model interprets public sector reorganisation as a welfare enhancing strategy for public officials. The model offers an alternative to the public interest justification. Both rational choice and the public interest account focus on how actors purse their aims through organisation and reorganisation. However, the bureau-shaping model does not accept the official account that the reform was intended to enhance the public interest at face value. Instead, rational choice disaggregates the public interest into the interests of individual actors involved in the reform process, including politicians and public officials. The approach suggests that one reason why the official accounts conflicted with each other is because different actors had their own interests in making statements about the reform rather than acting in as part of a unitary state machine. The model offers the potential to make sense of seemingly contradictory statements in official accounts.

However, the existing formulation of the bureau-shaping model is inadequate for addressing the question of why the agency model was adopted in UK central government. The model is underspecified as an account of why the reform happened. The model does not seem able to explain why the reform happened at the time that it did nor the relative contributions of politicians and civil servants in bringing about the changes. The mark II bureau-shaping model

is developed as an attempt to overcome these problems. The model is evaluated in terms of its consistency with events during the period.

Using the bureau-shaping model has implications for the methods used in this study. The approach taken by existing academic studies of 'Next Steps' places considerable reliance on official statements and raw interview testimony of officials. In contrast, following the conventions of rational choice, this study does not simply accept these statements at face value. The statements are potentially open to misrepresentation, because the actors sometimes have an interest in misrepresenting events. For example, comments by senior officials in the Cabinet Office that the reform was a success (I1, Senior Official, Cabinet Office; I2 Senior Official, Cabinet Office; I3 Senior Official Cabinet Office) need to be viewed in the light of their responsibilities for undertaking the reform and career incentives to portray it as a success.

However, the possibility of misrepresentation does not mean that official statements or interview material is without any use. Interviews are one way the official account is defined. Where there is not an incentive for misrepresentation, such information is likely to reflect underlying actions and processes. A list of interviews conducted for this study and more information about the format of the interviews is given in Appendix 12. The methodological approach is to be aware of the potential problems with official statements and interview material and to cross check findings with evidence from other sources.

An important alternative source of evidence is the actions of individuals involved in the reform. Actions usually have a higher cost for an actor than making a statement because they imply a more substantial forgone alternative, and are more likely to reflect their underlying motivations and interests. Actions include choices made about organisational arrangements and career choices, for example the choice of working in one form of organisation rather than another. Whether officials who were involved in bringing about the reform eventually ended up working in agencies themselves is one indicator of whether they liked working in that type of organisational form. The model suggests that officials were constrained by the institutional environment in which they worked, so

working in an organisational form is not unrestricted choice but choice of the best option from the opportunities available to them.

The third question, about future developments in use of the agency model, is explored in Part Three. A range of possible developments are explored including more use of the agency model, use of forms consistent with the model to supplement it and movements away from the model towards other forms, including reversal of the model. Because there is less material relating to future developments than past trends, the analysis of the third question is less extensive than that for the first two questions. However, the public interest model and mark II bureau-shaping model generate different expectations about future developments. Whilst the former model expects continued use of the model where appropriate, the latter model suggests that use of the model will be influenced by the interaction between politicians and civil servants operating in their institutional environments. The UK agency model is being emulated through conscious adoption of agencies by other countries based on the UK experience, as part of broader New Public Management changes. The models' expectations enable future trends in use of the agency model to be suggested for the UK and for other countries.

Part One: The Agency Model in UK Central Government

Chapter 1: The Agency Model, Agencification and the New Public Management

'We recommend that 'agencies' should be established to carry out the executive functions of government within a policy and resources framework set by a department.' (Efficiency Unit 1988:9)

Part One asks the question: how did the creation of agencies, or agencification, work in the period and was the reform a substantial change? Chapter One defines the analytical approach. Section One derives the agency model in the context of the UK central state from official statements about agencies, including the recommendation of the Efficiency Unit Report quoted above. Section Two develops a typology of agencies to explore variety in the use of the form. Section Three defines agencification and situates the reform within the broader set of New Public Management changes.

Section One: The Agency Model

The 'agency model' is derived from the practice of the UK central state. The central state is defined as the organisations controlled directly by the central political authority, the 100 or so members of the government. This follows the conventions of previous studies mapping UK central government in the late 1980s (Dunleavy 1989a, 1989b). It includes 'core executive' politicians, the Prime Minister and ministers of the central co-ordinating departments including the Cabinet Office and Treasury (Dunleavy and Rhodes 1990, Smith 1998). It also includes organisations controlled by other members of the government. On this definition, minor organisations which are not subject to direct political control by members of the government are excluded[1]. The central state includes

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[1] Possible official lists for identifying bodies in the central state cannot straightforwardly be adopted because not all of the listed organisations satisfy this criterion. Potential lists include budget lists, employment lists and lists of legally established Crown bodies. Hood and Dunsire (1981) cite the example of attempting to use the definition of a Crown body, organisations considered direct emanations of the crown. By this definition the, now defunct, Manpower Services Commission

ministerial departments, for example the Department of Social Security, and non ministerial Whitehall departments which are closely monitored by ministers, for example the Inland Revenue. The definition includes organisations directly controlled by ministers, staffed by civil servants, yet not officially counted as departments for example some 'non-departmental' public bodies, and bodies directly controlled by ministers but not staffed by civil servants, for example parts of the Ministry of Defence with armed forces personnel.

The 'agency model' is not the same as any particular case of an 'agency' in UK government. An history of the reform, written with the support of the Cabinet Office, stressed that 'The essence of the concept was that each Agency would be different, its structure and operations tailored closely to the needs of its business. There could be no single model' (Goldsworthy 1991:21). This statement reflects the reluctance of many officials to think analytically about the developments. Despite the protestations of some civil servants, agencies did share core characteristics which were defined in a few influential documents. The use of a model captures the main features of agency practice as was officially stated and implemented by UK government. The model is then used as a benchmark for exploring variation in the practice of the reform, rather than taking whatever happened in practice as part of the agency model.

There were a large number of official statements advocating use of the 'agency' form in the central state in the period 1988-98 in published reports and policy documents including White Papers and in statements by politicians and officials. The main organisations from which this material emanated were the Prime Minister's and Cabinet Office ministers' private offices, the Cabinet Office more

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was part of the central state. However it was regarded as an independent body by the Civil Service Department and was not included on its lists of civil service bodies and was very different from other bodies which are commonly known as 'Whitehall' and considered part of the central state (Hood and Dunsire 1981: 42). In the end Hood and Dunsire used estimates departments, receiving money and giving accounts of the use of funds to Parliament, to define the central state. They identified 69 government departments for the fiscal year 1976-77 by this means (Hood and Dunsire 1981:49). But this definition included national museums, which appear in estimates because of their civil service staff, but are not under close control by ministers in normal circumstances.

generally and the Treasury, followed by government departments and agency candidates once the reform got underway. However, the first major statement, which is taken as forming the core of the 'agency model', was the 1988 report to the Prime Minister by the Efficiency Unit, titled Improving Management in Government: the Next Steps (Efficiency Unit 1988). The Report's title famously gave its name to the 'Next Steps' agency creation reform and contained recommendations about the organisation of departments, the experience of staff and pressures on departments to improve value for money. It suggested 'that agencies should be established to carry out the executive functions of government within a policy and resources framework set by a department' (Efficiency Unit 1988: 9).

The 'Next Steps' report defined agencies as 'any executive unit that delivers a service for government' (Efficiency Unit 1988:9). It continued 'In some instances very large blocks of work comprising virtually a whole department will be suitable to be managed in this way. In other instances, where the scale of activity is too small for an entirely separate organisation, it may be better to have one or even several smaller agencies within departments. There were no size limits set on agencies, the report said 'agencies may be large or small'. (Efficiency Unit 1988:9). The Report stated that the potential scope for agencies could be as high as 95 per cent of Civil Service activities (Efficiency Unit 1988:3). The Government adopted this definition of agencies in its acceptance of the report. In an announcement to Parliament by the Prime Minister on 18th February 1988 Mrs Thatcher said that 'to the greatest extent practicable the executive functions of Government, as distinct from policy advice, should be carried out by units clearly designated within Departments.. as 'Agencies' (Goldsworthy 1991:16).

The 1988 Report went on to set out in broad terms, the structure in which agencies should operate 'These units, large or small need to be given a well defined framework in which to operate, which sets out the policy, the budget, specific targets and the results to be achieved. It must also specify how politically sensitive issues are to be dealt with and the extent of the delegated authority of management. The management of the agency must be held rigorously to account by their department for the results they achieve.' (Efficiency Unit 1988:9). The report also said 'The main strategic control must lie with the Minister and Permanent Secretary.

But once the policy objectives and budgets within the framework are set, the management of the agency should have as much independence as possible in deciding how those objectives are met.' (Efficiency Unit 1988:9). The departments were envisaged as being 'the definition of a rigorous policy and resources framework within which the agency management is set free to manage operations, and is held to account for results' (Efficiency Unit 1988:10). It was also noted that the framework needed to incorporate some mechanisms for dealing with politically sensitive issues as they arose (Efficiency Unit 1988:11). The report said that the head of the agency (later to be called a Chief Executive) should have a personal responsibility for achieving the best possible results within the framework set for the agency and that ministers are responsible for operational questions (Efficiency Unit 1988:10).

The main features articulated in the 1988 Report were reaffirmed in subsequent publications which also made some aspects of the model more concrete. The initial report suggested that some agencies may be more effective outside government (Efficiency Unit 1998:9). However, the government moved quite quickly to suggest that whilst privatisation was considered at the time of setting up agencies, agencies themselves were to operate within the public sector (Goldswothy 1991:18-19). The 1994 Government White Paper <u>Continuity and Change</u> argued that 'A key theme of Next Steps has been the delegation of management authority to Agency Chief Executives, enabling management to design organisational structures and processes which match the needs of their particular task (Prime Minister, Chancellor of the Exchequer and Chancellor of the Duchy of Lancaster 1994:13). The same document commented on the increasing structured relationship between those at the centre of departments and those in agencies and how the model was suitable for handling executive rather than policy work (Ibid. 1994:13).

The features described in the 1988 Report and White Paper relate define a distinctive form of 'agency' organisation. Organisational studies of the public sector note the various ways in which the resources including people, funding flows, rules, buildings and equipment are brought together to deliver publicly valued outputs. The limits of public sector activity are defined in different ways.

Following Lane (1993) organisations can be considered part of the state if they undertake well known different types of activity-

1) Part of state general decision making and its outcomes (the authority definition).

2) Part of state consumption and investment i.e. the organisation forms part of the government budget (the government allocation or provision of goods and services definition).

3) An organisation transferred by government between owners in the private sector (distributive definition of the state).

4) An organisation owned by the state.

5) An organisation with employees paid by the state (as opposed to the state also owning the capital of the organisation in addition to employing people).

The agency model involves element 4) state ownership of the organisations because agencies are public sector bodies. However there were a variety of funding sources, many were set up with public financing of their activities from general state sources, but some raise a substantial part of their finance from the private sector. The agency model is one type of publicly owned organisation and can be distinguished from other forms in the way authority over organisational resources is structured. In broad terms, authority is the right to perform some action and is related to praise or sanctioning, for example the right to remove an individual from his or her post. Legal rational authority rests on belief in the legality of the law and the right of those in authority to issue commands based on their position. It contrasts with traditional authority, resting on the belief in rules that have existed for generations and charismatic authority rests in particular individuals chosen for some reason, such as because of past heroic deeds (Weber 1978:215-216).

The idea of legal rational authority is used as the basis for defining the agency model. Distinctions between different uses of authority and their corresponding organisational forms are summarised in Table 1.1. The first distinction is between the use of authority and its absence. The agency model consists of the use of authority by a super-ordinate section containing the political executive, the minister, over a sub-ordinate 'agency' for delivering

services, rather than leaving the agency completely to its own devices. The split between an agency and a department creates an organisational boundary between the two, with the agency carrying out executive functions within a policy and resources framework set by the department (Efficiency Unit 1998:9). Because the agency model separates out those who set the overall goals for a public service and those who carry out action to achieve those goals it is similar to principal-agent analysis in organisational economics. These analyses examine the relationship between a 'principal' who passes authority to act on his or her behalf to an 'agent' to perform the activity (Weimer and Vinning 1996: 92-117). The 'agency model' involves the exercise of authority across organisational 'boundaries' within publicly owned bodies.

The second distinction is between rule governed and ad hoc authority. Ad hoc authority involves directing people and resources in a particular and exclusive way suitable for an individual instance as the need arises. The ability to use ad hoc direction is normally associated with the essence of 'ownership', in terms of ultimately vested rights of control and the ability to direct action at will. When something is 'owned' after contracts have expired or if situations change, the owner can direct the use of the resource. Rule governed authority is an alternative to ad hoc authority by using sets of general procedures to govern a regulatory relationship. The rules specify what individuals can or cannot do including the relationship between the superior and the subordinate, what they are expected to achieve with sanctioning or praise for achievement. Whilst choosing to apply a rule in a particular case is a sense an individual decision there are regularities in rules and expectations about their applicability. The perception of the rule's legitimacy and content is understood in advance by participants, restricting the scope for a single handed change to the rule and making them non-ad hoc.

The agency model places emphasis on the department exercising authority in a 'rule governed' way using the framework of objectives for controlling the agency rather in 'ad hoc' intervention. The 1988 Report noted that 'the management of the agency should have as much independence as possible in deciding how those objectives should be met' (Efficiency Unit

1998:9). Although rules can be changed in the agency model the expectation is that this does not happen quickly. Rules are the main way to direct and ad hoc direction is not viewed as legitimate, the super-ordinate should not intervene across boundaries on ad hoc basis.

The agency model emphasises a particular focus to the exercise of authority, emphasising authority over output rather than input. Inputs to an organisation are generally taken to include staff, budget, procedures or ways of conducting business. In contrast, outputs are valued consequences from the organisation's activities, for example meeting aims set for the organisation (Lane 1993:190-204). The agency model places more reliance on output related authority rather than input oriented authority, with the exception of budgetary limits for agencies that are funded out of the public purse. The department controls the outputs of the agency by rules in a 'regulatory' system of performance standards relating to a range of valued services produced by the organisation. The chief executive's tasks are set out as part of the rules. These constitute the 'well defined framework.. ..which sets out the policy, the budget, specific targets and the results to be achieved' (Efficiency Unit 1988:9) and reflect the Report's demand that 'the management of the agency must be held rigorously to account by their department for the results they achieve' (Efficiency Unit 1988:9).

Although the main focus is control by the department, agencies remained part of the central state and subject to system wide features. These included the authority of central units, especially the Treasury in public expenditure and accounting procedures (Treasury 1989). Agencies were not supposed to alter the convention of ministerial accountability to Parliament, because agencies were ultimately controlled by ministers. However, agencies' corporate identity entailed an associated responsibility to account for actions to other bodies as a distinct unit. In particular, agencies were to be held more directly accountable for 'operational' matters as opposed to policy matters, reflected in the heads of agencies responding to MPs questions on routine issues (Efficiency Unit 1988:10). But the main feature of the model is the relationship between

department and agency. In this respect, the agency model has the following key components-

1) Organisational separation between 'agency' and 'department' with autonomy from ad hoc direction and relatively few input rules.
2) Regulation of the agency by the department using output rules consisting of a quasi-contract and performance targets enforceable by sanctions including removal of the chief executive.

The agency model, is also called an output bureaucracy in Table 1.1 because of the use of rules in authority relations relating to outputs, and contrasts with other combinations of authority. The three main pure forms of control are the 'autonomous organisation', the 'ad hocracy' and the bureaucracy. The autonomous organisation, in the bottom right cell, does not have an authority relationship with a superior body. Instead the organisation is an autonomous body allowed to make its own decisions about use of resources and its goals. In the ad hocracy, the organisation is controlled by a super-ordinate who uses ad hoc direction alone. The sections of departments acting as ministers' private offices are examples of this form where officials are ready and expect to respond to the directions of the minister at short notice and in a flexible way. In contrast, in the bureaucracy type, authority is exercised over the body only by a system of rules. The other types are different combinations of use of authority. The traditional department from which the agency model was distinguished in the 1988 Report was mainly an ad hocracy. Whilst they clearly made use of rules for systems, such as personnel controls, the ad hoc forms of control were relatively important. The 1988 Report commented 'Middle managers in particular feel that their authority is seriously circumscribed both by unnecessary controls and by the intervention of Ministers and senior officials in relatively minor issues' (Efficiency Unit 1988:3).

Table 1.1 The Agency Model and other Forms of Authority in a Relationship between a Super-ordinate and Sub-ordinate Sections of a Publicly Owned Central State Organisation

	Ad Hoc Output Controls	Rule Governed Output Controls	Few/no Output Controls
Rule Governed Input Controls	Rule Governed Input Ad Hoc Output	Rule Governed 'Bureaucracy'	Rule Governed Input 'Bureaucracy'
Ad Hoc Input Controls	Ad Hocracy	Ad Hoc Input Rule Governed Output Model	Output Autonomous Input Ad Hocracy
Few/no Input Controls	Input Autonomous Output Ad Hocracy	Agency Model (or Output 'Bureaucracy')	Autonomous Model

The agency model, and all the forms in Table 1.1, differ from the relationship government has with private firms delivering services under contract. In dealing with private firms, there is an enforceable contract rather than the use of authority in either the regulatory or ad hoc direction senses, although this does not mean that firms are not also subject to other forms of broader state controls in other respects, for example in regulation of health and safety of employees. In a private contract, both parties enter into the agreement on the basis of voluntary exchange and can walk away if they do not like the terms of the relationship, subject to the contract. The contract is enforced by a separate third party, the courts. However, a contract has some strong similarities, with few input controls and instead broad specification of desired outputs. Most commercial contracts involve some degree of competition for provision of the service the agency model does not directly imply competition, except where agencies sell their products to consumers this could involve competition with other providers. But competition is not a core feature of the agency model as defined here, although the evaluation of the agency compared to alternative forms of delivery is a form of indirect competition for any incumbent agency, which is considered in the discussion of the creation of agencies. Finally, the

agency relationship differs from 'agreements' to perform services between central government bodies. In this case the arrangements are more like the voluntary exchange in dealings with a private firm because there is no authority relationship but the agreements are not enforceable in courts.

Section Two: Types of Agency

The core features of the agency model defined in Section One were common to all agencies set up under 'Next Steps'. However, there was organisational variety amongst the bodies set up under the reform. Rather than seeing each agency as unique, the approach developed here constructs a typology of agencies to place individual agencies with similar bodies. The typology developed here is for application to the entire set of agencies so it has to have categories that are jointly exhaustive to include all items of interest and which are mutually exclusive, so that an individual agency does not appear in multiple categories. However, beyond these criteria Miller and Friesen quote the view that 'there are virtually as many ways to classify organisations as there are people who want to classify them.' Consequently it is fairly easy to find a single dimension on which a typology can be based and which will support any given philosophical position'. (Miller and Friesen 1984:70). The usefulness of a typology or taxonomy can only be assessed in terms of the research questions being addressed. In this section, the typology incorporates two key features of variety which were seem as important by the officials advocating the reform.

Firstly, differences in origin of the agency budget. The 1988 Report suggested that some agencies were to be involved in charging customers for services and that these contrasted with those that received a grant from their department to cover most of the cost of their activities (Efficiency Unit 1988:28). The presence of a customer group offers a supplementary form of influence over the agency through customers paying for services or choosing alternative sources of supply (Prime Minister, Chancellor of the Exchequer and the Chancellor of the Duchy of Lancaster 1994: 22). This trading dimension introduced a 'market-like' control form alongside the 'regulatory system' of control by the department. The government extended the 1973 Trading Fund Act by legislation in 1990 to

cover agencies and used it to give some agencies financial freedoms. Trading funds were given a net running cost system of budget control, such that they could expand activities if covered by additional revenue, subject to the achievement of certain financial controls, such as a percentage return on capital. This framework contrasted with non trading agencies which had controls over their inputs and fewer 'commercial style' freedoms to expand their activities (Goldsworthy 1991:30-31).

Secondly, there were differences between agencies that kept their budget and spent it on their own activities and those that passed on much of their budget on to other organisations or individuals, for example in contracts to firms, grants or welfare payments. The agency model was suggested as a way of focusing management activity on the task at hand (Efficiency Unit 1988). However this meant different things in different types of agency. In the former agencies the model is mostly about the agency trying to improve its performance by focusing on its own activities. In the latter case improvements have to come from money passed on to others. The 'bureau tools' typology is developed here to reflect these two dimensions of variety in the agency model.

The bureau-tools typology synthesises the bureau-shaping typology developed by Dunleavy (1989a, 1989b, 1991) and Hood's tools of government approach (Hood 1983). Hood's approach suggests that government bodies use 'tools' to interact with their environment (Hood 1983). Tools can be used as detectors, which are tools used for taking in information, or effectors, tools used to influence or make an impact on the world outside the organisation (Hood 1983:3). The tool types are nodality, treasure, authority and organisation.

> Nodality- The property of being in the middle of an information or social network. A node is a junction of information channels which enables the drawing in and dispensing of information.
> Treasure- The use of a stock of monies or anything which is fungible, that is can be used for exchange. This tool may be used to influence outsiders or buy goods and services.

Authority- The use of legal or official power to demand, forbid, guarantee and adjudicate.

Organisation. The use of resources, such as land, people and materials in a formal structure.

The types of tools described by Hood form a near exhaustive list of ways government bodies can interact with their environment. The types also succeed in capturing tools which are peculiar to state organisations. The use of authority to coerce behaviour is usually denied to non-state bodies, for example business firms operate in markets using voluntary exchange and treasure. The key feature in terms of the variety of agencies is the use of treasure by the organisation. The bureau-tools typology uses insights from Dunleavy's bureau-shaping typology of public sector organisations to explore the use of treasure. Dunleavy's typology is based on the components of a bureau's budget. Dunleavy splits a bureau's budget into parts.

The core budget (CB)- Includes monies the bureau spends on its own activities, often labelled operating or running costs, plus associated capital investment.

The bureau element (BE)- Consists of monies which the bureau receives as part of its overall budget but then passes on to private sector firms or individuals in the form of contracts or transfer payments.

The program element (PE)- Encompasses monies which the bureau receives but then passes on to the public sector bodies at lower tiers of government in the form of grants.

The folio element (FE)- Includes monies which the agency controls but passes on to other agencies at the same tier of government.

The overall budget flowing through the agency is the programme budget (PB) and consists of the sum of the four elements listed above.

Several different types of organisation are distinguished by Dunleavy, they are-

1) Delivery buraux- They use their own staff to implement policy, providing services directly to citizens or enterprises. They are most often labour intensive organisations. The core budget dominates the program budget. The key tool is administrative organisation, and they are weighted toward effectors.

2) Taxing bureaux- This type raises government taxes and the budgetary profile resembles that of the delivery type. The core budget is high and all other budget elements low; core budgets and staff sizes are relatively large. The origin of taxing agencies' budgets may also be distinctive if it is financed directly from the taxes it raises.

3) Contract bureaux- These agencies develop proposals for capital projects or for services which are then put out to tender. Contract agency staffs engage in R and D, project specification, and contract management. The implementation of projects or services is left to contractors. Because most of the budget is passed on to contractors the bureau element is large and the tools used are treasure allied with administrative organisation in the case of routine procurement.

4) Regulatory bureaux- These agencies limit the behaviour of individuals, enterprises or other government agencies by making and enforcing compliance. The core budget dominates the program budget because they spend most of their budget on running costs. They rely chiefly on authority in devising detectors or effectors, with an increasing emphasis also on organised expertise, especially in the current era of 'light touch' regulation. They place most emphasis on detectors.

5) Servicing bureaux- These bureaux resemble trading agencies because they raise most of their revenues by charging. However they provide goods or services to clients who are exclusively or primarily other government organisations. Because servicing agencies have no significant private sector clients they are distinctive in the origin of their budgets, even if they are set up in quasi-trading form. Servicing agencies have a budgetary profile similar to delivery agencies.

6) Transfer bureaux- This type consists of agencies handling payments of government subsidies or entitlements to private individuals or firms. Transfer payments dominate their budgets and they have a high ratio of core budget to

program budget. Their work primarily involves making rules about and publicising the availability of transfers, establishing applicants' eligibility for subsidy and arranging payments. Making payments is fairly easy to automate and much of these agencies' effort goes towards detector mechanisms rather than effectors. Their primary detectors are authority and administrative organisation; their primary effector is treasure.

7) Trading bureaux- These bureaux raise finance by providing commercially equivalent services to a wide market, selling products or services in order to generate the bulk of their revenue. Trading bureaux operate in markets with private sector individuals or enterprises, while yet remaining subject to direct political control - in Britain ministers. Their budgets are provided by revenue obtained from selling their services.

8) Control bureaux- These agencies channel funding to other public sector bureaux at lower or subordinate tiers of government in the form of grants, approving applications and monitoring how receiving organisations spend the money and implement policy. The program element, which contains payments to other public sector bodies at a lower tier, dominates the program budget. The primary detectors are authority and nodality, while they rely almost solely on treasure for effectors.

9) Super-control bureaux- These bureaux are similar to control agencies, except that most of the budget they formally control goes to other public sector agencies at the same tier of government, without being in any formal grant system. Consequently the folio element dominates the program budget.

There was a limited attempt to classify 55 Next Steps agencies using the original bureau-shaping typology in June 1990 (Dunleavy and Francis 1990: 69-77). However, this framework is not suitable for this research without substantial alteration for several reasons. Firstly the framework does not produce fully mutually exclusive categories. For example delivery, regulatory, taxing, servicing and trading types have similar core budget to total budget ratios and contract and transfer types have similar bureau element to total budget ratios, and cannot be distinguished by budget composition alone. There isn't a clear hierarchy for applying criteria when they conflict. A second problem is that the theoretical justification for all the criteria are not equally clear. Dunleavy uses

the budget distinctions in a model of bureaucratic behaviour to suggest that individuals within organisations will have different attitudes towards different parts of their budget, because core budget is money that is used directly on their own activities whereas bureau and portfolio elements are passed on to other bodies (Dunleavy 1991). But the parts of the typology beyond the budget distinctions do not have a clear theoretical justification and appear ad hoc. These include the distinctions between taxing regulatory and delivery bodies which are not grounded in a theoretically justified dimension (or dimensions) of difference that might, for example, help understand different behaviour by individuals in different types of body.

However, two parts of Dunleavy's framework are incorporated. Firstly, the insight of distinguishing between public bodies on the basis of those that cover the costs of their activity by trading and those that get most of their money from grants. On this basis, the bureau-tools typology makes a distinction between organisations that are set up as 'trading' organisations and those which are not. The Dunleavy framework facilitates a second distinction based on the use of budget by an agency, between those where core budget dominates total budget and those where most of the budget is passed on to other bodies. Putting the two distinctions outlined above together produces the four categories in Table 1.2. The categories are mutually exclusive, such that an agency classified as being of one of the four types cannot be classified as a member of another type. Individual agencies are classified as either trading or non-trading. The budget type distinction is based on the predominance of budget, with either core or passed on budget constituting over half of an agency's budget.

Table 1.2: Bureau-tools Typology: Criteria and Types

	Non-trading	Trading
Core budget dominant	1.Delivery	2. Trading
Passed on budget dominant	3. Contract/ transfer	4. Trading/ contract/ transfer

Section Three: Agencification and New Public Management

Agencification is the process of agency creation involving the setting up of an organisation resembling the agency model where previously the activity was handled by a different form of organisation. Agencification is a type of administrative reform. Caiden defines administrative reform as 'the induced systemic improvement of public sector operational performance' (Caiden 1991:1). This research adopts a similar definition, but pays more attention to the possibilities of failure in reforms and does not assume that all consequences of reform are the result of a conscious attempt to improve performance. There is a role for unintended consequences and disagreement between actors about the best way forward. The focus is narrower than general reform, exploring agencification as the substitution of a quasi-regulatory relationship between organisations instead of existing forms, whatever those existing forms might be. Agencification is a process which can be conceived of in stages, including identification of possible activities for agency status, delineation of the agency and setting up of its performance regime, followed by operation of the agency and review of its continuing status as an agency. The consideration of alternative forms at the time of setting up the agency and periodic review can result in a different form being substituted including privatisation or even abolition. For this reason there is an element of competition and the position of the agency is not set in concrete.

Agencification is a special type of administrative reform, what is sometimes called 'machinery of government' reform or 'the allocation and reallocation of functions between departments' (Pollitt 1984:1). A research a project on the history of the organisation of central government departments further defined this conception to include changes in the internal structure of departments, the allocation to bodies other than ministerial departments and the creation of agencies and privatisation (McLean and Clifford 1996:3).

The clear analytical definition agencification is needed to evaluate the official accounts of the reform. Officials involved in the reform described the

processes involved in setting up agencies as varied (Goldsworthy 1991:21-25). But, at the same time, the conviction was expressed that the reform was a major and fundamental change sweeping central government (Prime Minister, the Chancellor of the Exchequer and the Chancellor of the Duchy of Lancaster 1994:12-13). The process of agencification involved different things depending on the origin of the activity prior to the designation of a unit as an agency. Identifying different forms of agencification enables an analysis of whether the creation of an agency marked a substantial change or merely a superficial 're-badging' exercise. The main forms of agencification used in this study are defined as-

1) Pure agencification, with the establishment of a largely separate organisation with agency regulatory measures for a unit which previously had substantial integration into another body.

2) Mitigated agencification with the establishment of a largely separate organisation with agency regulatory measures for a unit which previously had partial separation or some form of corporate identity as unit prior to this process.

3) Nominal agencification, with the establishment of a largely separate organisation with agency regulatory measures for a unit which had these characteristics but was not labelled an 'agency' .

4) New function agencification, with the establishment of a largely separate organisation with agency regulatory measures for a new body to perform a new function.

Agencification is part of the 'New Public Management' (NPM) reforms which swept the public sectors, including the central states, of many developed industrialised countries in the 1980s and 1990s (Hood, 1991, 1994). The agency model and agencification process are central to NPM. Hood (1991) noted seven doctrines which form NPM. These were hands on professional management in the public sector, explicit standards and measures performance, greater emphasis on output rather than input controls, shift to disaggregation of units in the public sector, shift to greater competition in the public sector, stress on private sector styles of management practice and stress on greater discipline and parsimony in

resource use (Hood 1991: p4-5). A similar NPM perspective was offered by Hoggett (1991). He suggested that the 'new management in the public sector' consisted of 'emphasis to flexibility -more flexible production strategies and manpower strategies' (Hoggett 1991:243) and a replacement of the 'notion of vertically integrated production (ie integrated around the centralised hierarchies of the classical industrial bureaucracy) with much more decentralised (organisationally and spatially) methods of organising production' (Hoggett 1991:243).

The initial definition of NPM was developed by Patrick Dunleavy and Christopher Hood to link NPM changes with 'grid-group' cultural theory. They argue that NPM 'involves a shift in the two basic design co-ordinates of public sector organisation, moving it "down grid" and "down group" . This shift consists of 'reworking budgets to be transparent in accounting terms with costs which attribute to output not input viewing organisations as a network of contracts linking incentives to performance, dis-aggregating separable functions into quasi contractual or quasi market forms, opening up provider roles to competition between agencies or between public agencies and firms and other bodies also de-concentrating provider roles to the minimum feasible sized agency' (Dunleavy and Hood 1994: 9)..

Dunleavy also developed a separate, though closely related, characterisation of NPM as a generic label for a group of policy and administrative solutions emphasising 'competition', 'disaggregation' and 'incentivisation' (Dunleavy 1994: 38-42). Competition involves efforts to remove monopoly suppliers, to establish multiple competing sources of supply where at least to show the contestability of blocks of work and thus to create a potential for future competition. Disaggregation emphasises the carving up of the public sector organisations, creating far more de-concentrated or decentralised patterns than in the day of functionally organised, integrated public service bureaucracies. Incentivisation introduces motivational devices at an individual level or revenue maximisation incentives at an organisation level to supplement or replace previous public service ethics focus on professional or organisational motivations.

Agencification fits squarely within these definitions of NPM. Agencification involves the disaggregation of activities to create corporate units within the central state headed by a chief executive. It involves establishing performance measures and targets for the agency, especially relating to the agency's 'outputs'. In this sense agencification marks a move 'down grid' and 'down group' in terms of cultural theory, but not to the extent that provision is handed over to the private sector. However, the idea that the chief executive is chosen as the best person for the job implies a broader search for job candidates than in traditional recruitment. In Dunleavy's terminology, agencification is a prime case of disaggregation, involving the setting up of corporate units, and changes in the form of incentivisation to place more emphasis on performance regimes, for example in assessing and rewarding the chief executive.

A further NPM perspective is Peter Aucoin's characterisation of administrative reform. Whilst he did not use the term NPM, he emphasised the tensions in the reforms between centralisation and decentralisation, co-ordination and deregulation, and control and delegation. He noted that these changes seemed to be occurring simultaneously (Aucoin: 1990: 115-137). Agencification fits Aucoin's thesis because they are about decentralisation of ad hoc controls and tougher central performance targets for agencies. However because the directions of centralisation and decentralisation relate to different types of controls, there is less tension in the agency model than in Aucoin's characterisation in conceptual terms.

A characterisation of developments with strong similarities to NPM is the 'hollowing out the state' perspective, suggested by Rhodes (1994), which consists of four inter-related trends evident in many public sectors during the 1980s and 1990s. Firstly, privatisation which limits the scope and forms of public intervention. Secondly, the loss of functions by central and local government departments to alternative service delivery systems such as agencies. Thirdly, the loss of functions by British government to European Union institutions. Fourthly, limiting the discretion of public servants through the new public management, with its emphasis on managerial accountability, and clear up political control

through a sharper distinction between politics and administration. (Rhodes 1994: 138-139). Agencification involves the creation of non traditional service delivery bodies and is in this sense part of the 'hollowing out' process, although it constitutes one relatively small part and the trend is conceived of as a much broader phenomenon.

Other commentators have claimed that modern states are becoming 'hollow' through their use of private firms under contract and other indirect means of providing services. Salamon has noted the 'rise of third-party government' (Salamon 1989), where federal agencies in the US rely increasingly on private companies, sub-central governments, voluntary associations or other intermediaries to deliver their policies to citizens. Salamon focuses on the experience in the US but the change is apparent in most developed countries:

> 'What is involved in this transformation is not simply an expansion in the scope or range of government action. Even more important has been a massive proliferation in its basic forms - in the instruments or tools the public sector uses to carry out its activities. These tools now include much more than direct service delivery by government bureaucrats. A veritable technological revolution has taken place in the operation of the public sector in this country, characterized by a widespread expansion of the basic instruments used to carry out the public's business.' (Salamon 1989: 3-4)

Similarly Kettl has identified the rise of 'government by proxy' involving governments use of non-government owned organisations under contracts, grants, tax incentives, loans and regulation, as well as direct service delivery. (Kettl 1988: 3-4). The growth of quasi-governmental agencies (QGAs), agencies which are semi-detached from direct control by elected politicians, and of 'quasi-non-governmental organizations' (QUANGOs), private or voluntary sector bodies which implement government policies, also reflects the shift away from government as a direct provider of services (Flinders and Smith 1999). However privatisation is not part of agencification, which does not involve a transfer of ownership, and is a separate reform process. Furthermore, agencies are not

'government by proxy' because they are still under the control of central state politicians. But the agency form is an intermediate form between traditional departments and more separate bodies because it combines increased 'corporate' focus with continued control. So agencification can be considered the 'inner face' of the 'hollow state' and part of the proliferation of tools that the government uses to carry out its activities described by Salamon in the above quote.

Detailed empirical research on the operation of 'New Public Management', the 'hollow state' and 'government by proxy' model is scarce. Instead, most of the literature is at a high level of generality and has been developed to provide an overall conceptual map in which to situate individual reforms. In the context of agencies, the empirical work that has been conducted has been fragmented and for the most part not linked to these overall theoretical considerations. The work has involved examining bits of personnel systems or single agencies, a feature which has been noted by several authors (Pollitt 1995, Talbot 1998). Rhodes argues that public administration 'must prove once again that it has something to contribute to understanding the institutions of government in their multiplying, manifold guises' (Rhodes 1997:178). The agency model is one such guise and detailed empirical work on its use in the UK central state can illuminate the operation of this important part of the New Public Management.

Conclusion

The agency model, typology of agencies and model of agencification offer a benchmark for evaluating the UK agency initiative as part of the New Public Management. Most work on 'NPM' or the 'hollow state' has been done at a high level of generality looking for overall trends, often across several countries. Much less theoretically informed work has been undertaken on developing detailed empirical studies to map trends. The models developed in this chapter will be used to explore several questions about the reform in the UK Firstly, what evidence is there of agencification in the UK? Did the creation of bodies called 'agencies' by the Government constitute a significant reform in

terms of the model of agencification or did official accounts refer mainly to 'nominal' changes? What types of agencies were created? How did agency working in practice compare to the model?

Chapter 2: Agencies and Agencification in UK Central State

'The Next Steps initiative is the most ambitious attempt at Civil Service reform in the twentieth century' (Treasury and Civil Service Committee 1990:v)

'..that Next Steps might constitute a substantively new and stable formula for public management into the next century seems to be the least probable medium term fate for the programme' (Hood and Jones evidence to the Treasury and Civil Service Committee 1990:82)

The conceptual framework of the agency model and agencification defined in Chapter One can be used to explore the practice of reform in the UK central state. The framework is used to trace the general pattern and to focus on the case of the largest agency, the Benefits Agency in the Department of Social Security. The approach enables a consideration of whether the reform, described in the above quote by the Treasury and Civil Service Committee as 'ambitious', brought substantial changes or whether they were superficial, as Hood and Jones thought more likely when they gave evidence to the Committee in 1990. Section One looks at the growth in the number of agencies, the origins of agencies and whether the changes consisted a substantial or nominal change. Section Two maps the types of agencies that were created during the period using the bureau-tools typology. Section Three compares the practice of agencification with related reforms in the central state.

Section One: The Creation of Agencies in the UK Central State

There were regular official updates on progress with the initiative which commented on its success, in terms of the number of agencies set up. Whilst the report was not publicly announced until February 1988, work identifying the first candidates for agency status began in Summer 1987 (Goldsworthy 1991:9). In 1991 the government reiterated its aim that 'all the executive activities of government will, as far as practicable, be operating along these lines by the end

of 1993' (Prime Minister 1991:36). However the pattern of creation of agencies has not been mapped against the conceptual framework outlined in Chapter One in either official or academic publications. According to the results of a census of agencies conducted as part of this research, 155 agencies were created in the period 1988 to 1998. The number of agencies created each year, the growth in the total number of agencies and their relative importance in the central state is shown in Table 2.1. The census results for the full set of agencies are contained in Appendix 1.

The first agency was the Vehicle Inspectorate, which was set up in August 1988, followed by Companies House in October 1988 and HMSO in December 1988. The number of agencies created each year peaked at 25 in 1990 and 24 in 1991, before falling back to between 14 and 17 each year. There was a second, higher, peak in 1996, with 30 new bodies. But this figure was, for the greater part, the result of 16 new agencies in the Ministry of Defence. These agencies were relatively small, most having fewer then 1,000 staff, and included some agency relaunches of units designated as agencies in previous years. The number of new agencies trailed off after the end of 1996 with only 2 created in 1997 and 4 in 1998. Whilst the reform was petering out in this period, 18 sections of work were under consideration for turning into agencies at the end of 1998, although about two thirds of these had fewer than 1,000 staff (Cabinet Office 1998:62).

The total number of agencies initially reflected the creation of new bodies. By 1989 there were just 10 agencies with 9,000 staff, but these figures grew rapidly to 76 agencies and 210,000 staff by 1992. By 1996, after the main burst of agencification, there were 133 agencies employing 313,000 staff, 63 per cent of all civil servants. After a subsequent period of lower agency creation, the total at the end of 1998 stood at 138 agencies with 299,000 civil servants or 65 per cent of the total. From 1993 some agencies changed their status, for example by merger, abolition or privatisation as discussed in Chapter Eight, and the total figure at the end of the period was lower than the number of agencies created. There was also a growth in staff located in departments designated as operating on agency lines which are included in official accounts of the 'Next Steps'

reform. These include Customs and Excise from 1991, Inland Revenue from 1992, the Crown Prosecution Service and Serious Fraud Office from 1997. The reform in these departments was an internal management reform within the organisation, for example to create 24 executive units in Customs and Excise, rather than a full application of the agency model between organisations, and do not count as use of the agency model in this analysis.

Table 2.1 Growth in Agencies 1988 to 1998: Number of Agencies and Civil Servants Working in Agencies

Year	Agencies Created	Total Number of Agencies	Civil Servants in Agencies	All Civil Servants	Agency Civil Servants as Percentage of All Civil Servants
1988	3	3	6,000	580,000	>1
1989	7	10	9,000	569,000	1
1990	25	35	114,000	562,000	20
1991	24	59	200,000	554,000	36
1992	17	76	210,000	565,000	37
1993	16	92	250,000	554,000	45
1994	14	102	268,000	540,000	50
1995	14	109	305,000	517,000	59
1996	30	133	313,000	495,000	63
1997	2	134	305,000	475,000	64
1998	4	138	299,000	463,000	65

Source: Appendix 1 Census of Agencies

The distribution of agencies varied across departments. Five departments had ten or more agencies. These were the Ministry of Defence, which created 45 agencies between 1990 and 1998, the Northern Ireland departments as a group with 24 agencies created between 1990 and 1998, the Department of Transport with 10 agencies created between 1988 and 1998 (by which time the department was

absorbed by the Department of the Environment, Transport and the Regions), the Department of Trade and Industry, with 10 agencies set up between 1988 and 1991 and the Cabinet Office which set up 10 agencies, ranging in start dates from 1988 to 1996. These department were followed by the Scottish Office with 9 agencies established between 1990 and 1995, the Ministry of Agriculture, Fisheries and Food with 8 between 1990 and 1995, the Treasury with 7 between 1990 and 1998, the DSS, which created 6 agencies from 1989 to 1994, the Department of the Environment with 5 between 1989 and 1992 (the Department was later absorbed in the Department of the Environment, Transport and the Regions), the Home Office with 4 set up between 1991 and 1993, the Lord Chancellor's Department which established 4 between 1990 and 1995 and the Department of Health with 4 from 1991 to 1994. Some other departments had a single agency each (Appendix 2).

The pattern of agency creation over time was broadly similar in different departments with the highest levels of agency creation occurring between 1990 and 1996. However, three departments were exceptions to the general pattern of timing of agency creation. There were two 'innovators', the Department of Trade and Industry, with just over half its 10 agencies set up between 1988 and 1991 and the Department of the Environment, which created all its 5 agencies from 1989 to 1992. There were no obvious laggards, although the Ministry of Defence, which eventually created the most agencies, was relatively slow to start. Beginning with 2 in 1990 and 6 in each of 1991 and 1992 new agencies fell back to 2 in 1993 before rising, on average, to 6 a year between 1994 and 1998. Similarly, in the Northern Ireland group of departments, 16 of its 24 agencies were created in the period 1995 to 1998, which was relatively late (Appendix 2)

The overall effect of agency creation varied between departments. By the end of the period, all the major departments with central state politicians in the Cabinet had created at least one agency (Cabinet Office 1997a:Chapter III). However, a few major departments had only one agency, including the Department for Education, the Foreign and Commonwealth Office (FCO), Welsh Office and Department of Employment. In contrast, the Ministry of Defence had 45 agencies. However, in terms of the proportion of staff who ended up in agencies, the picture was different, and is summarised in Table 2.2. On these

figures, the reform was most significant in the Department of Social Security with 97 per cent of staff in 6 agencies. The Lord Chancellor's Department had 80 per cent of staff in agencies, the Home Office and the Department of Employment, before the latter Department's merger with Education in 1995, both had 80 per cent of staff in agencies (Cabinet Office 1991;1992). The majority of departments were in the middle range, for example in the Cabinet Office agency staff formed around 40 per cent of the total, and in Ministry of Defence, despite their large number, agencies employed only 26 per cent of all staff. The FCO and Welsh Office's single agencies had less than 1 and 20 per cent of total staff respectively.

Table 2.2 :Staff in Principal Departments and Agencies in Year After Last Agency Creation, with Percentage of Staff in Agencies

	All Civil Servants	Civil Servants in Agencies	Staff in Agencies as Percentage of All Staff
Ministry of Agriculture Fisheries and Food	11,500	4,000	35%
Cabinet Office/Office of Public Service	2,500	1,000	40%
Ministry of Defence [1]	122,000	32,000	26%
Department for Education	2,500	500	20%
Employment Group	50,000	40,000	80%
Department for the Environment Transport and the Regions	19,000	14,000	74%
Foreign and Commonwealth Office	6,000	30	<1%
Overseas Development Administration	1,500	500	33%
Home Office	50,000	40,000	80%
Lord Chancellor's Department	12,000	10,500	90%
Northern Ireland	16,000	8,000	50%
Scottish Office	13,000	6,000	46%
Social Security	89,000	86,500	97%
Trade and Industry	10,000	5,000	50%
Treasury	15,000	2,000	13%
Wales	2,500	500	20%

Source: Civil Service Statistics (Cabinet Office 1991,1992,1995b) [1] Figure for MoD includes all staff, not just civil servants

However, the cases of agency creation outlined above were not all the same because agencies had different origins. Hogwood argued that agencificaiton was a very complex process, noting that departments were not monolithic structures before Next Steps (Hogwood 1997). Although agencification was not a uniform process, it was not irreducibly complex, the pattern of change can be identified. Applying the framework of types of agencification developed in Chapter One reveals the pattern presented in Appendix 3. In summary, for the 155 cases of agency creation, the most numerous type was the second type, mitigated agencification, where the organisation existed as a partially separate unit prior to the process. There were 108 agencies, or 69 per cent, derived from this process. This type was followed at the same level by the third type, nominal agencification, with 22 agencies or 14 per cent, and the first type pure agencification with 22 agencies or 14 per cent. The fourth type, new function agencification, was the least common form with only 3 agencies or 2 per cent. Agencification was pure or mitigated in around 83 percent of cases and as such 'Next Steps' was an important rather than a nominal reform. There was no obvious pattern in the distribution of types of agency creation over time, except that there were no cases of 'pure' agency creation in the first two years of the reform. Instead, in 1988 and 1989 the reform involved units that already had clear definition or were already separate bodies. There was no obvious pattern of difference between departments, most departments with several agencies had several different types of agencification.

However, agencification is not only a relationship between 'before' and 'after' states, but also as a process of identifying candidates and setting up the bodies. In terms of the process, the general approach was for departments to identify candidates for agency status and implement the creation of agencies using central guidance provided by the Cabinet Office and the Treasury. There was a central Next Steps Project Team with a senior Project Manager unit set up in the Cabinet Office to oversee progress on the reform. The Project Manager asked Departments to draw up lists of potential agency candidates. However, it was left to departments themselves to identify candidates and set up agencies. Departments were expected to undertake a process of questioning whether the activities should be done at all, then weighing up the alternative delivery

structures including contracting out the service for private provision by a firm, keeping the work in the department or creating an agency (Goldsworthy 1991:22-24). This process later became known as the 'prior options' test (Chancellor of the Duchy of Lancaster 1995). The choice of agency status was kept under consideration with reviews of agency status firstly every three years and, from 1994, every five years. The reviews were conducted by the departments (Cabinet Office 1994).

Focusing on the case of the Benefits Agency illustrates the process of agencification in this case. Because the case was an example of pure agencification it sheds most light on similar cases, but has some relevance for all agencies because of the common processes used in the reform. The DSS sought to implement the 'Next Steps' reform, stating that 'It is government policy that the executive functions of Departments should be carried out by agencies operating within a policy and resources framework and using the resources set by the Secretary of State' (DSS 1993:3). The creation of the Benefits Agency involved dividing up the department. Following the overall rationale of the 'Next Steps' programme, the Department focused its attention on its own activities rather than considering whether activities could be combined across departmental boundaries. The result of the reform was a split between a Department Headquarters (DSS HQ) and 6 agencies, including the Benefits Agency, that handled different activities.

The creation of the Benefits Agency was closely related to the establishment of the other agencies in the Department. The DSS employed a mix of agencification types, makes it broadly representative of the 'Next Steps' reform in the overall central state, although the DSS placed more emphasis than most departments on 'pure' agencification. The origins of agencies in the DSS, the type of agencification and type of agency are summarised in Table 2.3. The Department carried out major reviews of its activities to look at its work in the light of the Next Steps report. Senior officials commented that at the time departments were under pressure from the Cabinet Office to be looking at the potential for agencies to handle their work (I15 Senior Official, Benefits Agency). The Agency Study Report, sometimes called the Hickey Report after

the official who led the team, was an internal document reporting the findings of an examination of proposals for separating the activities of paying benefits and collecting social security contributions from the rest of the department. The team considered different ways of dividing up the department and concluded that the delivery of payments and contributions was one business. There was some discussion of privatisation of the function to a private firm under contract at the time of the initial establishment of the agency but this was not taken very far (I14 Senior Official, Department of Social Security). However, there were longer debates about how the separated bodies should be distinguished from each other.

The Permanent Secretary produced papers suggesting that contributions were a separable activity from paying out benefits. In the end, his version of the split was carried out and two separate agencies were established, the Benefits Agency and the Contributions Agency (Greer 1994:35-36). The Benefits Agency, set up in April 1991, brought together several bits of the Department to form the agency responsible for running a network of local offices and central centres for paying out benefits and is categorised as pure agencification (DSS 1993:26-29). The Contributions Agency was established at the same time and brought together several parts of the Department and is pure agencification, to run the National Insurance system for contributions (DSS 1993:32-33).

Although much of the Benefits Agency came from the regional administration rather than the policy core of the DSS, substantial changes were involved in separating out the Social Security Operations group and moving functions like personnel to the new body (I13 Senior Official, Department of Social Security). The Benefits Agency handled the bulk of the Department's work in the period. In 1998, the DSS was responsible for the delivery of a programme worth about £100,000m, or around 30 per cent of all public expenditure (Secretary of State for Social Security and Chief Secretary to the Treasury 1999:3). Within this total, the HQ had about 1,700 staff and a budget of £182m. About 96 per cent of staff were in agencies with almost 80 per cent in the Benefits Agency which employed 67,000 staff, paid benefits amounting to £81,500m, spent £2,431m on its own administration costs (BA 1999a:46 and 56). There was agencifciation from the Benefits Agency itself through the creation of

the War Pensions Agency (WPA), a case of 'pure' agency creation. The Agency was carved out of a central unit and staff located in local offices dealing with war pensions within the Benefits Agency. The WPA ran as the War Pensions Unit within the Benefits Agency until April 1993, prior to being established as a full agency (DSS 1993:36).

The Benefits Agency reveals how general processes of agencification operated in the setting up of new agency systems. In contrast, mitigated agencification was a less radical change, two examples of this form of change were undertaken in the DSS. The Resettlement Agency was the first agency candidate to be announced by the DSS, in early 1988. The agency managed hostels for homeless people and at the same time was responsible for moving central government out of this activity. Because the agency already had some separate identify within the department the creation process was an example of mitigated agencification. The second example was the Information Technology Services Agency. A report by an official, Eric Caines, examined information technology and recommended that an agency be set up to handle this work. The Information Technology Services Agency took on organisational units which were already part of the Information Technology Directorate within the organisation. The Agency ran IT systems and had a role in contracting out IT functions (DSS 1993:30-31).

The creation of the Benefits Agency contrasts with new function agencification. In the DSS, an example of this form was the Child Support Agency (CSA), a new body responsible for carrying out the assessment of liability, collection of payments and enforcement of child maintenance payments from liable relatives, a function instigated by new legislation. This Agency was formed from a shadow Child Support Unit, created in April 1992 with responsibility for existing work on child maintenance transferred from the Benefits Agency, and a substantial new set of new tasks arising from changes in legislation in the area. Senior DSS staff took the decision to locate these functions in a shadow unit which was established as a precursor to the agency rather than being integral parts of the Department or the Benefits Agency (DSS 1993:35-36).

The process of creating the Benefits Agency contrasts with nominal agencification, involving no substantial change. The DSS did not have any agencies of this type, but the case of HMSO illustrates this form of change. The organisation was already a separate government department prior to the reform. It had trading fund status since 1980 under which it became self financing and had a target set by the Chancellor of the Exchequer of gaining a five per cent return on assets. The opportunity for agency status was seen by senior management within HMSO as providing more freedoms but not involving major organisational change (Dopson 1993:17-23). There was no reallocation of activity associated with the creation of the agency or radical change to the system of setting targets for the organisation. Instead the conferral of agency status was largely a relabelling exercise.

Table 2.3 Benefits Agency and Other Agencies in the Department of Social Security, Date of Establishment, former Location of the Activity and Type of Agencification

Agency	Date Established	Location of Agency Activity Before Establishment as a Next Steps Agency	Type of Agencifcation
Resettlement Agency	May 1989	Units under control of Department of Social Security	Mitigated
Information Technology Services Agency	April 1990	Information Technology Services Directorate within the Department of Social Security	Mitigated
Contributions Agency	April 1991	Branches of the Department of Social Security	Pure
Benefits Agency	April 1991	Regional Directorate and Regional Offices in the Social Security Operations Group within the Department of Social Security	Pure
Child Support Agency	April 1993	New function	New function
War Pensions Agency	April 1994	War pensions and general benefits sections, Social Security Operations Group within the Department of Social Security and the Benefits Agency from April 1991	Pure

Source: Appendix 3; DSS 1993

Section Two: Types of Agency

There were attempts to identify types of agencies and classify bodies set up as part of Next Steps, but the research using these classifications is not suitable for the purposes of applying the bureau-tools typology developed in Chapter One. One classification of agencies was used by the 'Fraser' report (Efficiency Unit 1991: 22-25) which identified the following groups of agencies-

1. Mainstream agencies, which are fundamental to the mainstream policy and operations of their departments, such as the Benefits Agency in the Department of Social Security.

2. Regulatory and other statutory agencies, which carry out delegated statutory functions, usually the implementation of rules, for example the Vehicle Inspectorate.

3. Specialist service agencies, providing services to departments or other agencies, such as the Information Technology Services Agency.

4. Peripheral agencies, which are not linked to the main aims of the department but which report to its minister, for example HMSO (Efficiency Unit 1991: 22-25).

However, this classification was not based on the differences which were identified in the framework set up in Chapter One. Similarly, research using Greer's (1994) more theoretically informed typology is of limited use. Greer distinguished between those agencies which obtained their budget from operating in markets from those which were dependent on Treasury finance. Second, she distinguished agencies which were monopoly providers from those which were non-monopoly providers. Greer applied the typology to the agencies in the Department of Social Security (DSS); the results are shown in Table 2.4.

Table 2.4 Greer's Typology Applied to DSS Agencies

	Treasury Dependent	Revenue Raising
Monopoly	Benefits Agency War Pensions Agency Child Support Agency Contributions Agency	
Non-monopoly	Resettlement Agency	Information Technology Services Agency

Source: Greer (1994:40)

However, the types were not applied consistently. The Child Support Agency and Contributions Agency were described as 'revenue raising' in the text because of their role in tax and child maintenance collection (Greer 1994: 41) despite being classified as 'Treasury dependent, monopoly' in the typology (Greer 1994: 40). The confusion was exacerbated when both agencies were reclassified as 'revenue raising, monopoly' agencies without acknowledging their previous, different, classification (Greer 1995:193). The 'monopoly/non-monopoly' distinction is also unclear. If 'non-monopoly' is the existence of current competition then the Resettlement Agency should have been a monopoly agency because there were no other bodies vying to carry out its tasks. If potential for competition was the criterion then not only the Resettlement Agency but several of the agencies classified as 'monopoly' should have been classified as potentially non-monopoly, for example banks and building societies could compete for some services provided by the Benefits Agency.

Applying the bureau-tools typology in a fresh study produces the summarised in Table 2.5. The methods used in this analysis and a list of all 155 agencies classified by type, with the date of establishment, is included as Appendix 1. The delivery type was the most numerous with 119 agencies or 77

per cent, followed by the contract/transfer type with 20 agencies or 13 per cent, trading with 15 agencies or 9 per cent and trading/contract/transfer with 1 agency. In terms of staff numbers the contract/transfer type is the most significant with around 40 per cent of staff, because of the contribution of the biggest agency, the Benefits Agency and the third largest agency, the Employment Service, followed by the delivery type with near 40 per cent of staff, followed by the trading types having the remaining 20 per cent of staff between them.

Table 2.5: Agencies Classified by Bureau-tools Types

Type	Number	Percentage	Examples
Delivery	119	77	HM Prison Service, The Insolvency Service
Contract/transfer	20	13	Benefits Agency
Trading	15	9	HMSO, Meteorological Office
Trading/contract/transfer	1	>1	The Buying Agency

Source: Appendix 1 Census of Agencies

Table 2.6: Types of Agencification (with Percentages) by Agency Type

Bureau type	Number of agencies in type	Pure	Mitigated	Nominal	New Function
Delivery	119	16 (15)	87 (73)	15 (12)	1 (1)
Contract/transfer	20	6 (30)	10 (50)	2 (10)	2 (10)
Trading	15	0 (0)	10 (70)	5 (30)	0 (0)
Trading/contract/ transfer	1	0 (0)	1 (0)	0 (0)	0 (0)
Total	155	22 (14)	108 (70)	22 (14)	3 (2)

Source: Appendices 1 and 3

There were differences in the origins of the different types of agencies, and consequently in the form of agency creation that was entailed by Next Steps, as summarised in Table 2.6. The delivery and contract/transfer types had a broadly similar pattern of agency creation to the overall picture summarised in the section on agencification. The trading/contract/transfer type does not indicate a pattern beyond the single agency was an example of mitigated agencification, the most frequently occurring form of agencification overall. However, the trading type came only from cases of mitigated agencification and nominal agencification. Nominal agencification was found to be the form for 30 per cent of trading agencies the highest percentage figures for any of the types.

Section Three: Reforms Similar to Agencification

There were a number of related reforms going on in the UK central state with similarities to agencification in the same period. But the 'Next Steps' agency reform was sufficiently distinctive to constitute a separate strand of reform. The other reforms did not have enough features of the agency model and agencification to constitute further examples of use of the model. However, agencification drew on elements of the earlier Financial Management Initiative (FMI) in that agencies had clear targets for their performance and clearly defined objectives, which were key aspects of FMI. The 1988 report which generated the reform proposal was originally a study into the progress made in the FMI and other reforms (Goldsworthy 1991:5-6). However, the FMI did not propose organisational separation to the same degree and had largely run its course by 1988. A second related reform was the removal of central pay and grading systems. This reform is closely related to the general thrust of agency creation because it involved giving more autonomy to individual units. However, the delegations were also given to departments rather than picking off blocks of work to form distinct 'agencies' with a principle of less ad hoc intervention by senior staff in the department.

Other reforms in the central state had fewer similarities to agencification. The setting up of the Senior Civil Service in 1996 consisted of enhancing common career practices across senior grades, including senior agency staff. In

this sense it conflicted with the idea of letting agencies develop their own approaches. However, because it was mainly focused on departments where the bulk of senior staff were located, it is separable from the agency creation process discussed here. Similarly the delayering of senior posts in the mid and late 1990s, involving cutting grades, was an internal process of management reorganisation within departments and agencies rather than a change in use of the agency model.

There were further public sector reforms that affected the central state and which had some similar features to agencification. A major reform throughout the period was privatisation, in a number of different forms. Firstly, there was privatisation where ownership was transferred from the public sector to a private firm or charity. The 1988 Report suggested that agencies could be part of the public service or 'may be more effective outside government' (Efficiency Unit 1988:9), continuing 'Ultimately some agencies could be in a position where they are no longer inside the Civil Service in the sense they are today.' (Efficiency Unit 1988:10). However, whilst privatisation of agencies has occurred, it is not analytically part of the definition of agencification offered in Chapter One and was not part of the practice of setting up Next Steps agencies. The Cabinet Secretary Sir Robin Butler wrote 'The Next Steps initiative is simply about reorganising executive functions within government' (Butler 1994:266). Whilst privatisation was considered prior to establishing an agency, the official statements introducing the reform quickly de-emphasised the potential privatisation option, commenting that 'agencies will generally be within the civil service, and their staff will continue to be civil servants' (Hansard 1987-88: Col 1157). Whilst agencies were privatised and privatisation was an option it was not directly part of the agency reform.

Another form of privatisation involved the use of private firms under contract to provide public services. This type of change was evident in the Competing for Quality, or market testing reform, which arose about three years after the Next Steps process got under way (Prime Minister 1991, Treasury 1991). The market testing procedure involved a review process similar to the prior options process before agency creation. The following questions were asked of an activity. Firstly, does the activity need to be done at all? Secondly, if

the activity has to be performed does the government have to be responsible for it? Thirdly, if the government needs to retain responsibility does it have to carry out the task itself? Finally when the job has to be carried out by government is the organisation of the correct structure (Prime Minister 1994). In this sense 'market testing' was not fully distinct from the creation of agencies because the agency form was one of the possible organisational structure. However, the use of private firms under contract to provide public services is not an instance of the agency model in the terms used here, which focuses on publicly owned bodies. Another form of privatisation was the Private Finance Initiative. This initiative consisted of increasing the use of private investment to provide public services paid for by taxpayers or some other arrangement, such as charging (Treasury 1992b). However, whilst a PFI arrangement was an alternative to the use of an agency, it was a distinctly different form of arrangement to the agency model of service delivery, usually involving a contract with a privately owned organisation.

However, there was use of 'arms length' relationships between departments and other public organisations with similarities to the agency model. These include the use of so called 'quangos', the central state's relationship with the local state and nationalised industries. The term 'quango' has been applied to many types of organisation and has a complicated history. Many have suggested that quangoisation, the increased use of this form, has been an important feature of the latter half of the 20th century both in the UK and other developed countries (Flinders and Smith 1999). In the UK central state, quangos were normally taken to centre on Non Departmental Public Bodies, a term derived from Sir Leo Pliatzky's 'Report on Non-Departmental Public Bodies of January 1980 (Pliatzky 1980). An NDPB was defined as 'a body which has a role in the processes of national government, but is not a government department or part of one, and which accordingly operates to a greater or lesser extent at arm's length from Ministers' (Cabinet Office/Office of Public Service 1995: v). These bodies were different from the agency model in two important respects. They were not formally part of departments and usually had a statutory framework establishing them.

The agency model has closer links and a stronger role for the department in controlling the agency through formal performance targets than NDPB arrangements. NDPBs were structured with more autonomy from departmental direction, although departments did try to influence these bodies from time to time. NDPBs are beyond the scope of the present analysis. However, confusingly, the now defunct Funding Agency for Schools was called an 'agency' but was an executive body of the Department for Education and not part of the Next Steps agency reform. The Funding Agency for Schools did not match the criteria of the agency model and is not included in this study. The nationalised industries that existed in the period, similarly to NDPBs, were not examples of the agency model because these organisations had greater autonomy from departments than agencies. Table 2.7 summarises the main reports produced by government that relate to the 'Next Steps' agency reform in the period.

Table 2.7 Principal Reports and Legislation Relating to the 'Next Steps' Agency Reform in Central Government 1988-1998

Date	Report	Description
1988	Improving Management in Government: the Next Steps	Suggested establishing executive agencies operating in a policy and resources framework set by departments
1989	The Financing and Accountability of Next Steps Agencies	Set out the financial framework in which agencies operated and the relationship with the public expenditure control system
1990	The Government Trading Act	Extended the eligibility for trading fund status to a wider set of public bodies including some agencies
1991	Making the Most of Next Steps (Fraser Report)	Recommended that departments grant agencies more freedoms and adjust their work to reflect agency working and suggested improved mechanisms for communication between departments and agencies
1991	The Citizen's Charter	Standards for public services and better performance reporting for public bodies, including agencies. The Charter standards were similar to agency performance targets, and were the same in some cases.
1991	Competing for Quality	Suggested 'market testing' parts of central government work including activities handled by agencies
1994	The Civil Service: Continuity and Change	Consolidation of agency system and efforts to ensure the continued survival of a cadre of senior civil servants
1995	Next Steps: Moving On (Trosa Report)	Reviewed progress since the Fraser Report and suggested further ways of improving department/agency communication and improvements to performance regimes for agencies
1996	Development and Training for Civil Servants: A Framework for Action	Improvements to training systems, including passing on more responsibility to departments and agencies
1996	Government Direct	Prospectus for the electronic delivery of government services including services handled by agencies

Source: Cabinet Office (1998:80-83); Minister for the Cabinet Office (2000:297-301).

Conclusion

Findings from the analysis of developments in the UK central state suggest that the agency model became increasingly significant between 1988 and 1998, with over 155 agencies created in the period. By 1998, 65 per cent of civil servants worked in agencies. However, the creation of agencies was not a uniform phenomenon and a pattern was apparent. The agency reform was very significant, in terms of staff, for some departments, especially the Department of Employment (which merged with Education during the period), Department for the Environment Transport and the Regions (which arose from a merger of Environment and Transport during the period), Home Office, Lord Chancellor's Department and Department of Social Security. In contrast it was less significant in others, for example the Foreign and Commonwealth Office.

The creation of an agency involved different types of agencification. Mitigated agencification, in which the organisation existed as a separate unit prior to agency creation, was the most numerous type, with 69 per cent of agencies arising this way, followed by pure agencification with 14 per cent. Nominal agencification similarly accounted for 14 per cent of agency creation with new functions forming the remaining 2 per cent. These results suggest, overall, that Next Steps was a major reform, as suggested by official accounts. However, the analytical approach produces a more differentiated interpretation of the reform than in official accounts. Whilst pure agencification was evident, the importance of mitigated agencification reflected the considerable fragmentation within departments before the agency reform and there were some cases of nominal change.

The bureau tools typology demonstrates the variety of agencies produced by the reform. The Delivery type was the most numerous with 119 agencies or 77 per cent, followed by the Contract/transfer with 20 agencies or 13 per cent, Trading with 15 agencies or 9 per cent, and Trading/contract/transfer with 1 agency. In terms of staff numbers, the Contract/transfer type was the most significant with around 40 per cent of staff, in part because of the contribution of the biggest agency, the Benefits Agency. Most types reflected the general pattern

of agency origins, however 30 per cent of trading agencies were the result of nominal agencification.

The creation of agencies had similarities with other reforms in the UK public sector during the same period. The most closely related reform was the drive to delegate pay and grading to departments and agencies, which fitted with the thrust of the agency initiative to create corporate units. The drive to set standards as part of the Citizen's Charter was similar to the use of performance targets, but the agency performance systems were embedded in regulatory systems for departments to control agencies. The agency reform was more distinct from other changes occurring during the period, including different forms of privatisation.

Chapter 3: The Practice of Agency Working

'Over the last six years the Next Steps initiative has fundamentally altered the way in which the Civil Service is managed' (Prime Minister, Chancellor of the Exchequer and Chancellor of the Duchy of Lancaster 1994:13).

The above quote from the government White Paper <u>Continuity and Change</u> suggests that agencies had been set up and were operating in a way largely consistent with the original recommendations of the 1988 Report. But neither the government nor academics evaluated the operation of these bodies systematically. The claim in the White Paper was an assertion rather than a conclusion based on clear evidence. This chapter examines the overall practice of agencies by drawing on the fragmented academic and official studies to build a more systematic analysis on a few key dimensions. The approach is supplemented by exploring the case of the Benefits Agency, drawing on more detailed studies and interviews. Each section of the chapter examines the operation of an element of the agency model. Section One looks at organisational separation between the agency and department and the operation of freedom from ad hoc intervention and flexibilities. Section Two examines regulation by the department, especially the use of performance targets. Section Three examines agencies' relationships with bodies other than departments as distinct units within the central state.

Section One: Organisational Separation, Freedom from Ad Hoc Intervention and Flexibilities

The first element of the agency model consists of organisational separation of the agency to create a corporate unit focused on achieving the aims of the organisation and freedom from ad hoc intervention by the department. Whilst internal management procedures are not prescribed in the agency model, the model implies a structure which is responsive to the chief executive and his or her management team and accountable through them to ministers. The model

gives the agency flexibility in the use of resources to run the business in a way which best focuses on the task at hand.

Superficially, the separation of the agency from the department was achieved by creating a separate body called an 'agency' headed by a chief executive with overall remit for running a section of work as set out in a Framework Document. This Document 'publicly set out the respective roles of ministers..and those of agencies..they make transparent the resulting accountabilities within government and to Parliament' (Treasury 1989:17). Framework documents were not legal documents but contained durable elements which set out the Chief Executive's responsibility to Ministers, the Agency's aims and objectives, the services provided, the financial arrangements, including financial objectives and pay and personnel arrangements (Goldsworthy 1991:26). Although agencies formally remained parts of departments in many cases they were encouraged to create their own corporate identity and had more autonomy in the use of their resources.

The Government noted that after a phase of setting up agencies, the implications for the departmental side of the relationship were being realised by the mid 1990s. 'At the same time [as agency models developed], the development of a more structured relationship between those at the centres of departments and those in agencies has increasingly focused attention on the nature of headquarters tasks and how they can best be discharged, whether in policy making or the strategic management of agencies' (Prime Minister et al 1994:13). The resulting collection of agencies and departments was described as a 'federal structure of more autonomous units' (Office of the Minister for the Civil Service 1989:5).

However, the practice of agencies did not always reflect such a clear division of tasks. A 1991 report by Sir Angus Fraser and the Efficiency Unit analysed agencies in six departments taken to be broadly representative of most agencies, in terms of handling a similar variety of activities to agencies in total. They used the ad hoc classificatory scheme discussed in Chapter Two. However, the report listed examples of agencies it examined which coincided with the three main types identified by the bureau-tools typology in Chapter Two. The

examples included Historic Royal Palaces (delivery) the Vehicle Inspectorate (trading) and Benefits Agency (contract/transfer). The team found a lack of clarity in the relationship between several agencies and their departments, for example in setting out the roles and responsibilities in the Framework Document. But they noted that this problem was less apparent where the agency had considerable autonomy in its activities and a direct relationship with customers (Efficiency Unit 1991:2-4;23-25). This finding fitted the trading types identified in Chapter Two.

Some of these problems reduced over time. A later report, published in 1994 to follow up issues raised by Fraser, found that the relationships were generally more clearly worked out than in the earlier period, although tensions between agency priorities and departmental initiatives not included in agency targets remained (Trosa 1994:11-13). Only 20 per cent of the agencies she visited described their relationship with the department as a 'good' working relationship with clear allocation of responsibilities, and these cases were most clearly where there was some form of trading or clearly separable task (Trosa 1994:28). After 1994, the core parts of departments made adjustments as part of Senior Management Reviews. There was delayering of senior grades resulting in staff reductions of 27 per cent overall, and more of a focus on tasks to be done rather than grades. These changes were partly to improve policy advice but also to match management structure to the needs of the work being done by departments to reduce 'double guessing' of agency actions by departments (Cabinet Office 1995a:17).

The difficulty of separating agencies' tasks from those of departments was reflected in the issue of whether to hold the agency or the department and its ministers to account for performance. This issue received considerable academic and parliamentary attention. Academic studies define accountability as some form of giving information to other parties about activities, justifying actions on the basis of mandates for their conduct and praising and blaming the agency for the action, possibly with rewards or punishments in this process. Research examined the practice of allocating accountability for actions to agency chief executives and ministers (Dudley 1993, Barker 1998, Hogwood, Judge and

McVicar 1998, Polidano 1999). Ministers did not always refrain from ad hoc intervention in agencies, leading to allegations that they were responsible for actions within the agency despite the formal separation of the body. This problem was explored in the case of the prison service, where the Chief Executive claimed that he had been subject to day to day interference from ministers despite the supposed operational discretion of the body (Barker 1998; Polidano 1999). The ministers did not limit themselves to 'policy' issues of setting the framework for the agency. Intervention included summoning the Chief Executive to the Home Office to discuss operational matters on a daily basis and the Agency being put under pressure to suspend the governor of a prison after an escape (Polidano 1999:202-203).

Other studies came to a similar conclusion. Hogwood, Judge and McVicar (1998) examined mechanisms of accountability to ministers, Parliament and other groups. They found continued intervention in agencies where ministers perceived political salience to be high. Harlow (1999) found problems of separating policy and operational matters in allocating blame for failures in the Child Support Agency. The Public Service Committee picked up on and reported these problems of ministers' ad hoc interventions in operational matters (Public Service Committee 1996). Dudley (1993) similarly found that the separation of departments handling policy from agencies dealing with implementation was indistinct and that ministers intervened in agencies. However, high profile incidents attracting media and parliamentary interest were rare. The Prison Service and Child Support Agency cases were unusual (Polidano 1999:207).

The difficulties of task separation and freedom from ad hoc intervention were evident in the case of the Benefits Agency. But the problems were not as severe as in prisons and child support. The organisational separation between the Headquarters and the Benefits Agency is shown in Figure 3.1 at the end of this chapter. The purpose of the agency was stated as 'the administration of social security benefits and other services' (Benefits Agency 1991:4). This aim was restated in subsequent annual reports as a mission to 'support the Government in establishing a modern welfare state...by helping to create and deliver an active and modern social security service. The service will encourage independence and

pay the right money to the right person at the right tine, all the time' (BA 1999a:5). At the end of 1998, the BA administered 24 social security benefits, provided information and advice about benefits, handled claims, appeals and reviews, and made payments and recoveries for benefits (BA 1999a:31). The Department of Social Security Headquarters, contained the Secretary of State for Social Security, other ministers, the Permanent Secretary, the senior official in charge of the department overall. The Headquarters was responsible for overall social security policy and implementation. The DSS stated that Headquarters 'supports Ministers on policy and legislation and provides corporate management of the Department... ...as well as covering the allocation and accounting for resources, targets and performance measurement' (DSS 1999a:1).

However, the separation of policy issues from operational work in which ministers did not intervene was not complete. The Framework Document emphasised that the Secretary of State, Permanent Secretary and DSS HQ did not ordinarily intervene in the day to day running of the agency (BA 1991:7). The 1995 Framework Document restated the principle that the Chief Executive of the agency has responsible for day to day management was repeated (BA 1995b:3). However Framework Document gave ministers the right to intervene, even if they did not generally intend to use it, stating that the Agency was 'acting on behalf of, and in accordance with any directions, where appropriate, of the Secretary of State for Social Security' (Benefits Agency 1991:4). The Agency was required to 'maintain the capacity to respond quickly to Ministerial direction' (Benefits Agency 1991:5). But this potential for intervention did not produce clashes on the same scale as in prisons or child support (I13 Senior Official, Benefits Agency; I15 Senior Official, Benefits Agency).

The incompleteness of the separation between policy and operations was acknowledged. The Framework Document stated that the Agency should 'contribute to the Department's development and evaluation activities; provide information on the operational implications of current and alternative programme characteristics and provide, to an appropriate level of quality, such data as Ministers and the Permanent Secretary may require to support the monitoring, evaluation and development of policy and the monitoring and forecasting of

benefits expenditure' (BA 1991:5). The same document suggested that the Department consult the agency before making policy changes and that the chief executive could propose changes, but the that the Department took the lead on policy matters (BA 1991:7, BA 1995:3-4). These statements did not create a clear divide, in practice staff on both sides complained that the division of responsibilities was not always clear. The Framework Document suggested that the Agency was largely in a subordinate role in developing new policies such as strategic frameworks for delivering benefit or the design of new benefits. But senior staff in the Headquarters claimed that the Agency quickly developed its own policy capacity which duplicated the responsibilities of the Headquarters (I14 Senior Official, Department of Social Security). In contrast, senior staff in the Benefits Agency said that the policy edicts from the Headquarters were underdeveloped and did not constitute a plan that could be implemented by the Agency. Instead the Agency often received instructions amounting to general principles accompanied by details of legislation. These instructions could not be used directly to inform delivery arrangements. The 'policy' section in the Benefits Agency translated the intentions of the policy makers into strategic management 'business plans' which could be implemented in the Agency (I15 Senior Official, Benefits Agency). Whichever of these interpretations was true, there was 'strategic' work occurring on both sides of the Department/Agency divide, although it formed a much smaller proportion of the Agency's work than in the Headquarter's tasks.

The agency model suggests that agencies have flexibility in the use of their resources, in funding and budgetary arrangements, pay and grading, recruitment and working practices. Studies of agencies in the early 1990s found that agency chief executives were not always getting the freedoms they needed, departments were in some cases attempting to micro-manage agencies, for example keeping controls over pay systems (Efficiency Unit 1991:6-11). However, the pattern varied between agencies and between different types of flexibility. Firstly, examining funding, the bureau-tools typology defined a difference between trading and non trading types of the agency model. In the trading type, the agency is given more freedom for commercial operation with net budget control and freedoms to expand. There were several trading fund agencies. In the overall survey, agencies that

operated as trading funds for any of the period 1988-1998 are listed. However, not all operated on this basis for the entire period. There were 6 trading funds in 1991 (Prime Minister and Minister for the Civil Service and Minister of State, Privy Council Office 1991:73), rising to 12 by 1994 (Chancellor of the Duchy of Lancaster 1994:iii). At the end of the period there were 13 agencies operating in this way (Cabinet Office 1998:53-56). The introduction of this way of working was delayed as financial information systems were set up but they generally worked as they were intended once established (Efficiency Unit 1991:13).

For non-trading agencies, the degree of financial flexibility varied. Some were financed by a 'gross' budget passed on from the department and required to pay any surpluses into general receipts, for example CADW. Some were supply financed but operated on a net running cost regime where they covered the costs of providing certain specified services by charging, for example the Vehicle Certification Agency. The freedom to have net control rather than gross was widespread. A survey of 26 agencies in 1991, including the above examples, found that 62 per cent had net running cost rather than gross control. There were further freedoms in use of budget, 85 per cent had complete or partial freedom to vire money between parts of their budget; and only 25 per cent not allowed some form of carry forward of unspent budget from one year to the next (Pendlebury, Jones and Karbharti 1992:42-44). Further freedoms were granted in procuring goods and services. A survey of 26 agencies in 1991 found that 85 per cent had partial freedom over procurement, although restrictions often applied to larger items over £0.25m of expenditure (Pendlebury, Jones and Karbharti 1992:45).

In terms of employment systems some flexibilities were granted, although agency staff remained civil servants on transferring to agencies, unless they were already some other type of personnel, such as military staff. The departments often retained controls over employment conditions, pay and recruitment, these were sometimes specified in the Framework Document. However, the Treasury and Cabinet Office granted discretions and delegated authority for recruitment to agencies. This authority was revocable and the agencies were dependent on their department and central agencies' support. A study of 34 agencies in 1991 found that 82 per cent had partial freedom over recruitment. In the agency model,

flexible recruitment extends to the chief executive who is supposed to be the best person for the job regardless of whether he or she has a background in the Civil Service. But the choice of chief executives was, in practice, heavily influenced by departmental and central procedures. A study of 90 per cent of the chief executives appointments over the period 1988-1996 found that competition was restricted. Only 65 per cent of appointments went to full competition and allowed candidates from any background to apply. In terms of appointments, 54 per cent came from the civil service, 18 per cent from elsewhere in the public sector, 15 per cent from the armed forces and 13 per cent from the private sector. The tendency to recruit from the civil service was even more acute in the first two years of the reform. However, once chosen, pay was set according to the individual requirements of each appointment within certain bands set centrally. (Horton and Jones 1996). There is substantial variation in the pay of chief executives and the 'ranks' they corresponded to in the civil service, from grade 1A (Second Permanent Secretary) to Grade 6 equivalent (Hogwood 1994:81).

Agency specific systems of pay took several years to develop. Almost three years after the initiative began, HMSO was the first agency to get a separate pay system. Some agencies did not want to develop separate systems, such as the Vehicle Inspectorate which delayed the introduction of a scheme (Clifford 2000:18-20). However, the fact that the agency was given some form of choice, even to remain in system wide arrangements, indicated a delegation. Agency specific pay systems began to catch on after 1994, most larger agencies took over the running of their own pay systems although there were restrictions on freedoms for senior officials pay (Cabinet Office 1994). At the end of the period, a Cabinet Office review commented favourably on the flexible systems developed by agencies to meet their different needs (Cabinet Office 1998). The pay bargaining systems, which had been centralised before the 1980s, also began to be set on an agency by agency basis, challenging the traditional conception of the Civil Service as a single employer (Clifford 2000).

Many agencies were successful in developing their own patterns of working distinct from their departments (Efficiency Unit 1991, Trosa 1994). However, a Price Waterhouse survey found that about half the agencies had day-

to-day contact about detailed management issues with their parent department. Despite these limitations the same survey found that agency chief executives felt that they were able to devote the bulk of their attention to developing their own internal management styles rather than cross-departmental management issues (Hogwood 1994:86). Each of the annual reviews of agencies conducted by the Cabinet Office presented ways in which the organisations had been able to develop flexible practices. In the first review Peter Kemp, the Project Manager, claimed evidence from 34 agencies in the document supported his view that 'People are showing what they can do when they are enabled to give of their best rather than just told to do so' (Prime minister and Minister for the Civil Service and Minister of State, Privy Council Office 1990:7).

A range of academic studies provides some support for this statement, although highlighting the restrictions on autonomy discussed above. The distinctive systems of working practices appeared most developed in trading types of agency. Dopson noted how the HMSO developed its own procedures, including staff appraisal systems. Although the agency initiative created an expectations gap because HMSO's managers did not get as much freedom as they had hoped, they had more freedom to develop their own procedures than in the past (Dopson 1993:17-23). Mellon found, in interviews with six agency chief executives, that chief executives found it easiest to establish practices that broke away from traditional civil service procedures where they could point to attempts to improve customer satisfaction rather than implementing procedures set by departments (Mellon 1993:25-31). However, flexible working was far from confined to trading agencies. The chief executive of the Employment Service argued that agency status enabled the organisation to develop a clearer 'vision' of the business and styles of working focused on these aims which would have been more difficult without agency status (Fogden 1993:10-11).

The Benefits Agency reflected the problems with flexibilities found in other agencies. In terms of budget systems the agency was partially separate. The Agency reported through the Department as part of the Public Expenditure System and the Secretary of State for Social Security allocated resources to the Agency. The Agency operated under a gross running costs control system, and

the chief executive submitted a statement of strategies and resource requirements to the Department and Treasury (BA 1991:13, BA 1995b:6). The Agency had some flexibilities in the timing of spending its money, with a 0.5 per cent year to year carry over of running costs and could carry out capital projects up to a limit, and switch between sub-headings of running and capital and other costs within limits (BA 1991:14, BA 1995b:6-7).

There were freedoms in use of other resources. The Agency had recruitment systems which were partially separate from those elsewhere in the DSS. These began at the top of the Agency. The Chief Executive, recruited by open competition and for a fixed term on the basis of suitability for running the Agency, but was appointed by the Department rather than the Agency itself (BA 1991:15, 1995b:7). The Chief Executive was given responsibility for setting management structure, creation and retrenchment of posts and promotion and pay arrangements and general personnel issues outside of senior posts. The Agency gained responsibility for pay arrangements in April 1994 and developed separate systems for pay and recruitment in consultation with the Department and the Treasury. But this was carried out in a way consistent with the DSS Personnel Guiding Principles and the staff remained civil servants. However, the chief executive carried out negotiating rights with employees in pay bargaining which gave the body more flexibility (DSS 1995).

The Agency was able to develop its own working patterns. It had a different internal structure to the DSS Headquarters. The Headquarters was a set of closely located units focused on policy development and corporate management centred on Whitehall. The Agency initially had a central core based in Leeds with most staff employed in a local network structure of 159 Districts in 20 Area Directorates with a central core of benefit centres. These were initially run through three Territorial Directorates with the whole of the Agency being supported by four Central Directorates covering personnel, policy and planning, finance and medical services (BA 1993:5). The organisational structure at the start of agency working is shown in Figure 3.1. In April 1996, the Agency reduced the number of territories from 3 to 2 and rationalised the Area structure from 20 to 13 Area Directorates. This change occurred after a review of the

Agency in 1995 but was primarily instigated by senior Benefits Agency management to enable the organisation better to focus on its aims (I13 Senior Official, Benefits Agency).

Section Two: Regulation by the Department and Performance Targets

The second part of the agency model consists of the department's regulatory system consisting primarily of periodic review and a performance target regime. The Government reiterated that it was eager to 'move away from a 'management by command' to 'management by contract' and saw agencies as a way of doing this (Prime Minister 1990:15). The system was originally seen as using an annual quasi-contract covering both policy objectives and a resources framework. However, in many cases the systems did not match the model.

The regulatory framework was principally set out in the Framework Documents. However the link for reporting agency performance and receiving instruction from the department took various forms. In some agencies the chief executive reported directly to the minister, but in many others the agency reported to the Permanent Secretary or lower ranking officials in the department. After the Fraser Report in 1991, senior figures were used as points of contact for agencies in some departments. Some personal responsibility for performance was taken by the chief executive. There were high profile removals, such as the sacking of Derek Lewis as head of the Prison Service agency or Ros Hepplewhite as head of the Child Support Agency, but these form under one per cent of the total number of people who held chief executive posts since between 1988 and 1998 (Horton and Jones 1996 and Cabinet Office 1998:68-79). A study of agencies in 1996 found that only a third had experienced a change in chief executive and changes were often associated with an alteration of status rather than performance of the chief executive by itself. However, all chief executives had their pay linked in some way to performance (Horton and Jones 1996).

Departmental oversight through the agency 'prior options' review operated to a standardised set of procedures laid out in guidance (Cabinet Office 1995a), although practice did vary. Each agency had an external review every

five (originally every three) years, handled by the supervising department with guidance from the Next Steps Team in the Efficiency and Effectiveness Group, the Citizen's Charter Team in the Cabinet Office and the relevant expenditure sections of the Treasury. In cases where the agency itself was a department, the review was conducted by the agency, but external representation from central departments was sought to include non agency officials on the review team (Cabinet Office 1995a:1-3). The reviews brought together experience since the launch of the agency or the last review, re-appraised the agency using the 'prior options' process which examined whether the functions could be abolished, privatised, let using a contract rationalised or merged. The reviews evaluated the performance of the agency in meeting objectives, examined efficiency savings and productivity gains and how well services were delivered to 'customers' of the agency (Cabinet Office 1995a: Annex C). They made recommendations including changes to the status of the agency, the framework document or performance targeting regime The results of the review were presented to Parliament and included in the agency and report and some cases are also published separately (Cabinet Office 1995a:13).

Full reviews and other assessments by departments led to changes of status or closure in 30 out of 102 agencies over the period 1995-8 (see Chapter 5). So the review process appears to have been a real rather than just nominal consideration of status -agencies were not 'immortal' and resistant to change. If an agency review suggested that agency status was to be maintained, it made recommendations for future development of the agency and changes to the performance regime. The review documents were not ordinarily publicly available. However a survey of 30 agency reviews using unpublished official documents at the Cabinet Office found that, whilst the form was varied, most concentrated on performance targets rather than a broader consideration of efficiency and effectiveness. These limitations of the review process were recently acknowledged by the Cabinet Office but it was claimed that they provided a focus for thinking about the continued use of the agency form (minister for the Cabinet Office 1999:23). The Benefits Agency's reviews by the Department for Social Security support this opinion. One review was conducted in 1995. Whilst the review did not result in a change in status of the Agency it

did precipitate an internal restructuring to reduce the number of territorial regions from 3 to 2 and rationalise the directorate structure from 20 to 13 directorates (BA 1997:7-9). The review was also used as an opportunity for internal debate about the future direction of the agency (I14,Senior Official, Department for Social Security; I15 Senior Official, Benefits Agency).

A key part of the regulatory system was the use of performance targets and measurement of performance against targets. These targets were set by the department as a way of controlling the agency in a strategic manner. The Treasury issued guidance on setting targets and measuring performance, categorising agency performance under the headings of financial performance, volume of output, quality of service and efficiency (Treasury 1992a). All agencies had a system of performance targets intended to enable departments and agencies to make value for money judgements by taking inputs and outputs together and considering how operations linked with policy.

However the systems were not operating as the model would require. There were large 'gaps' in the performance regimes of many agencies, targets were often changed and were not challenging enough. The target setting systems were often not fully integrated into wider planning systems. In 1991, the Fraser report found that target setting was still evolving for many agencies and the implementation of regimes was uneven. Sometimes overall goals were expressed as a single target. For example the Royal Mint was tasked with making a percentage return on assets. But most other agencies' targets exhibited a wider range of targets. An evaluation of targets in the mid 1990s found a mean of 7 targets for each agency. However there was considerable variety in the number of targets, from just one to over 20. In most cases a target did not seem to cover all the aims of the organisation (Talbot 1996). A study looking at the Home Office and Department of Social Security agencies in the mid 1990s, sought to identify performance targets corresponding to the stated aims of the bodies. The study found that 47 per cent of agencies' aims and objectives were not covered by performance indicators and a further 31 per cent were only partially covered (Talbot 1996).

Not all aspects of performance were treated with equal importance. A study revealed that in total, for all targets for all agencies, 59 per cent related to outputs (for example units of different goods or services produced in a year), 17 per cent related to efficiency (often a measure of unit cost of output), 12 per cent referred to processes (for example achievement of an administrative task) 9 per cent related to inputs and less than 1 per cent were about outcomes (for example effects of an agency's activity on a policy aim) (Talbot 1996). In the early 1990s a survey of 26 agencies found few had clear targets for performance outside of financial performance (Pendlebury, Jones and Karbhari 1992: 47). Another study, which looked at a set of about three quarters of agencies that existed in the period 1991-994 found similar results, with efficiency targets forming around 10 per cent of total targets with input and output targets forming the majority of targets, 40 per cent of agencies did not have any targets for efficiency (Hyndman and Anderson1998:26-27). These studies suggest that the balance of targets was heavily weighted towards outputs rather than outcomes or efficiency.

Not only were targets limited, they changed from year to year, hampering a comparison of performance over time. Research looking at 10 agencies of different sizes between 1990 and 1996 found that there was a 70 per cent turnover of targets over the period (Talbot 1996:49-51). Targets were criticised for not being challenging enough. It could be argued that whatever targets were set reflected what politicians wanted from the agency, so even if they appeared 'lax' to an observer they were still a good indicator of performance, in terms of achieving what politicians wanted. However, many agencies were able to influence the setting of performance targets. The coverage and form of targets was usually only set after considerable discussion between the agency and the department in most cases because the departments lacked knowledge of what was achievable (Efficiency Unit 1991, Trosa 1994:11-14, Massey 1995). The problem of lack of independence extended to evaluating performance against the target, which was generally measured by the agency itself rather than by an external body. The National Audit Office found discrepancies in measurement of performance by agencies. For example, the Meteorological Office reported efficiency improvements at 75 per cent of the target for 1993-94. However, the

NAO calculated that the agency had only achieved 40 per cent of the target (NAO 1995c:1).

The case of the Benefits Agency demonstrated the problems with performance targets. The Department of Social Security held the Agency accountable for performance against targets set by the Secretary of State which reflected key ministerial priorities, shown in Figure 3.1. The targets were mainly quantitative assessment of performance against a numeric target with a few milestone targets for achievement of specific policy aims. A steering group advised the Secretary of State annually on setting targets and sought advice from both the Department and the Agency (NAO 1998:37). The Agency provided the Department with performance information each month, which fed into the three meetings each year between the Permanent Secretary and the Chief Executive to discuss performance (NAO 1998:39-40). There were also Citizen Charter standards from the centrally driven initiative discussed in Section One. However, these were set in a way which overlapped with existing targets rather than constituting a separate set of requirements.

The external targets were supplemented by internal management targets filling out the external targets to deal with wider performance of the agency. Internal targets were set by the Chief Executive and approved by the Secretary of State. The Agency central management monitored performance and took action where performance was seen as needing improvement (Benefits Agency 1993:7). At each level of the agency the targets were a guide for action, so the external system had a considerable influence over the internal management of activities; leading to more standardisation of performance measurement regimes within the Agency (Greer 1994:74-75). It also led to more formal and independent central checking to ensure accuracy in the agency's own performance systems (I13 Senior Official, Benefits Agency).

However, problems with the implementation of performance measurement and targeting systems were noted. Firstly, the Secretary of State's targets did not cover some large parts of the agency's work, for example the accuracy of the administration of Retirement Pensions (NAO 1998a:56). There

were few measures of whether the benefit went to the right person and the systems largely ignored the issues of efficiency and the quality of customer service (NAO 1998a:39 The Agency had an indicator of cost of administration per pound of benefit expenditure, which covered all spending of the agency on benefits. However this measure left aside issues of quality –for example whether the right people were getting the benefit, which should have been a consideration in a 'full' indicator of efficiency. Such a consideration would have been essential for considering the effectiveness of the body in this task; the emphasis was on measures reflecting crude outputs rather than outcomes. Because targets referred to a percentage of claims rather than all claims, any claims beyond the target time did not have clear standards for achievement (Carter and Greer 1993). Secondly, performance targets were frequently changed. Some targets, for example the Secretary of State's targets for speed of payment were downgraded after 1992/93. There were also movements in target coverage, definitions, the introduction of new tasks and problems with accuracy of measurement of performance against targets (NAO 1998a:16). Locally collected data on accuracy figures, used to assess performance against external targets, were often found to be wrong. Local reports were suggesting that accuracy was 94.4 per cent against a target of 94 per cent, but when central checks were done the accuracy figure was found to be only 89 per cent (BA 1993: 20-21).

There was even some confusion about the fundamental role of the system of performance targets in the Agency's relationship with the Department. This issue was reflected in contradictory statements about the regime by Ministers and the Chief Executive. Ministers stated that the targets were intended as levels of performance the Agency should achieve (Minister for the Cabinet Office 1998:192). However the second Chief Executive, Peter Mathison, expressed a different view in 1998. He said that there was disbelief that some of the Secretary of State's targets were achievable, citing an accuracy target of 87 per cent. He commented that 'We have an overall target [for accuracy] for the Agency and when I came in we were so far adrift from it that people had given up [on achieving the target].' (Social Security Committee 1998:Q152). Instead Mathison called the target a goal, in the sense of something to move towards rather than necessarily to achieve in a given year. Mathison stated that he was trying to get

the agency to raise performance from below 80 per cent towards 84 per cent and eventually to 87 per cent. Ministers' public tolerance of this position was demonstrated by the fact that they did not remove the chief executive and the apparent contradiction was allowed to remain (Social Security Committee 1998:Q188-190).

Section Three: Relationships with Other Bodies

The agency model, as defined in Chapter One does not specify the relationship with groups beyond the 'parent' department in great detail. However, it does suggest that agencies have a corporate identity distinct from departments and some associated responsibilities to account for actions to other bodies as a distinct unit. The model does not alter the convention of ministerial accountability to Parliament, because agencies are controlled by departments, but it does suggest that the agency could be held more directly accountable for routine 'operational' matters. There are difference between types of agencies. All agencies are supposed to respond to customers, but the non-trading type agencies have ministers as their primary customer whereas trading type agencies, are set up to respond in a more commercial way to those who purchase services from them. However, all agencies remain part of central government, and as such are subject to system wide rules, but the model suggests that they are as free as possible from these rules to enable them to focus on the task at hand.

There was limited central monitoring of agencies by Parliamentary bodies, in keeping with the focus of the model on reporting to ministers, but some separate accounting for operational matters. Chief executives were responsible for answering MPs questions relating to operational matters, referring them on to ministers if they raised policy matters. For most agencies, standard practice was for the minister to see a copy of the answer but not to intervene if it dealt with operational matters (Hogwood, Judge and McVicar 1997:20). However, the general principle of ministerial accountability, where ministers give information to Parliament, principally through questioning by Members of Parliament, take responsibility for action and, on occasion, resign for poor performance, did not operate fully for central government in general.

According to a survey of resignations, ministerial accountability was a convention that, particularly with regard to resignations, did not seem connected with implementation failures in the early 1990s (Dowding 1995:161-178). However, Parliament expressed particular concern about the division of responsibility between agencies and departments. There were problems in a few cases, including HM Prison Service and the Child Support Agency as discussed in Section One.

In reviewing agencies, Parliament relied on existing governmental and academic studies supplemented by requests for information and oral questioning of witnesses on a piecemeal basis. Scrutiny was more effective in the committees than on the floor of the house, where questions were ad hoc and did not systematically probe the performance of agencies (Evans 1994). The Public Accounts Committee, acting with NAO advice produced several reports with substantial sections devoted to agencies (Public Accounts Committee 1989; Treasury and Civil Service Committee 1990; Public Service Committee 1996). Concern about the limitations of performance targets was expressed reported by parliamentary committees. The Public Accounts Committee argued for more indicators of the quality of service for customers into targets because this group was not having its interests represented in targets (PAC 1989). The Treasury and Civil Service Committee conducted reviews which suggested that agencies' targets failed to take account of customer satisfaction (TCSC 1990).

Other committees touched on the work of agencies, but reviews were rare, generally concentrating on a few extreme cases (Hogwood, Judge and McVicar 1997:15). An example was the Social Security Committee's interest in the Child Support Agency, which was the subject of several reports because of exceptionally poor performance (for example Social Security Committee 1993;1994;1995). Agency officials answered questions at Select Committee hearings on the same basis as departmental officials, subject to the 'Osmotherly Rules' which state that civil servants answer questions on behalf of ministers and ministers make and interpret policy (Dowding 1995:156). The practice of agency working did not appear to involve a new and separate form of accountability directly between agencies and Parliament, bypassing ministers according to a

study of select committee questioning of agency officials between 1988 and 1993 (Natzler and Silk 1994:73). Later research produced a similar finding for the mid 1990s (Hogwood, Judge and McVicar 1997:14-17).

Parliament's watchdog for scrutinising the executive, the National Audit Office, conduced 'financial audits' of expenditure and 'value for money' studies relating to agencies. Each agency's accounts was separately checked by the NAO, reflecting the emphasis on corporate responsibility in the model. However only 3-5 'value for money' studies were carried out specifically relating to agencies each year. Reports published in 1995 illustrate the range of studies, including a review of services performed by Scottish Heritage (NAO 1995a), a study of banking services provided by HM Paymaster General (NAO 1995b) and an examination of the Meteorological Office's performance (NAO 1995c). NAO did not undertake an evaluation of the agency model or the reform process in general. The partial exception was an early report on progress in the reform initiative (NAO 1989). In this report, the National Audit Office reviewed the initiative but the report was concentrated early on in the life of the reform and concentrated on departments' performance in getting the Next Steps initiative under way (NAO 1989).

The Benefits Agency reflected this general pattern of relationships with Parliament. There were not such severe problems as occurred in prisons or child support. MPs questions about routine matters were handled by the Chief Executive, and, despite a few initial complaints from MPs, there was not great disquiet about the system despite the Agency having the third highest volume of questions of any agency (Hogwood, Judge and McVicar 1997:12-14). However, the difficulty of fully separating tasks between the DSS Headquarters and the Agency was reflected in accountability to Parliament, especially to parliamentary committees. The Agency was at times asked to present its case jointly with the Department, for example in giving evidence to the Public Accounts Committee (Public Accounts Committee 2000). The Agency was subject to inquiries by the National Audit Office as a distinct unit. The NAO found problems with both financial accounting and value for money. The head of the NAO, the Comptroller and Auditor General, qualified his opinion on financial accounts of the Agency for

the tenth successive year in 1997-98, because of errors. In 1997-98 these included error or fraud constituting about 7 per cent of total spending of the Agency (Public Accounts Committee 2000:Secs.1-3). The NAO produced 2 or 3 value for money studies each year in which the Benefits Agency was a substantial topic. The Agency received more attention than other agencies, in part, because of its size. For example, in 1998 reports included Underpayments to Public Service Pensioners on Invalidity Benefit (NAO 1998a), Benefits Agency: Performance Measurement (NAO 1998b), and Department of Social Security: Progress on Measures to Combat Housing Benefit (NAO 1998c). However these reviews did not amount to a systematic evaluation of the full range of the Agency's activities.

Agencies developed relationships with broader customer groups and the public as distinct units through the production of annual reports and corporate and business plans. However, corporate plans were sometimes not publicly available for reasons of commercial confidentiality (Prime Minister and Minister for the Civil Service, and the Minister of State, Privy Council Office 1990:7-8). Taking the case of the Benefits Agency as an example, the organisation produced business and corporate plans setting out its strategies for dealing with future developments as a way of publicly stating its intentions and aspirations for performance to clients and the general public (BA 1991:8, BA 1995:5). Senior officials in the Agency suggested that it was keen to try and project a 'corporate' image as a distinct organisation to people claiming benefit. The Agency supplemented annual reports, with other schemes to refurbish offices, give staff name badges and produce promotional material to project a new image for the Agency (I4 Official, Benefits Agency; I13 Senior Official, Benefits Agency).

The agencies remained part of the central state and were subject to system wide rules, mainly those set and enforced by the Cabinet Office and Treasury. The Treasury incorporated the agency system within the existing expenditure control framework, with agencies passing on their spending requests via departments (IA1, Senior Official, Treasury; IA4 Senior Official, Treasury). However, at some points central policies on expenditure limited agencies' discretion. There were blanket public sector pay settlements, like the maximum

1.5 per cent pay rise announced in November 1992, and periodic freezes on running costs throughout central government (Hogwood 1994:86). A survey of chief executives found annoyance at these pressures from the centre when many wanted to pursue their own policies (Price Waterhouse 1993). But, according to senior officials responsible for implementing Next Steps, the fact that these central initiatives were being interpreted as an unnecessary burden in part reflected a change, with Chief Executives questioning relevance to 'their' organisation rather than accepting because they were responsible for a component part of central government (I1,Senior Official, Cabinet Office; I2 Senior Official, Cabinet Office).

Agencies were incorporated into the existing system of accounting for expenditure, which placed responsibility on officials designated as 'accounting officers'. The chief executives were appointed accounting officers for their agencies either as second accounting officers responsible for a 'vote' of funds allocated by Parliament responsible for the programme and agency running costs or appointed as an additional accounting officer responsible for the running costs of the agency (Treasury 1989). This allocation of responsibilities was consistent with the model's emphasis on giving responsibilities to agencies as a unit, although cases were the chief executive was responsible for a separate vote as well as responsibility for running costs moved further in that direction than cases where the chief executive was responsible only for agency running costs. The freedoms from general accounting rules were greatest in trading funds with net running cost systems and freedom to expand service provision subject to certain restrictions (IA 3 Senior Official, Cabinet Office).

But even beyond the trading type, agencies had freedoms, as is illustrated by the Benefits Agency. The Treasury expenditure teams mostly worked through the DSS for public expenditure rather than dealing directly with the Agency. The Treasury and DSS were generally in agreement over the strategic management of the Agency and the relationship was made easier by the movement of ministers and senior officials between the two departments, especially in the mid 1990s (Deakin and Parry 2000:132). In this sense the Agency did not develop a fully distinct relationship with the Treasury, which was consistent with the agency model which

emphasises departmental control over the agency. In terms of accounting for expenditure, whilst the Permanent Secretary of the DSS was Accounting Officer for the Department as a whole and for administrative spending and payments from the National Insurance Fund, the Permanent Secretary appointed the Chief Executive as Agency Accounting Officer for this expenditure where it was handled by the Agency (BA 1991:10, 1995b:4). The Treasury appointed the Chief Executive Additional Accounting Officer in accounting for the Social Security Benefits Vote and the Social Fund Vote (BA 1991:10, BA 1995b:5). This second function gave the chief executive extra responsibility, which was kept under review by the Secretary of State with advice from the Permanent Secretary.

Agencies were required to supply information to the Cabinet Office which produced an annual review of agencies from 1990. However, the Cabinet Office was not able to develop comparative indicators of efficiency for each agency in the review because the information provided was not produced on the same basis by different agencies (Minister for the Cabinet Office 1999:32). The Cabinet Office undertook limited reviews of some aspects of the practice of the agency model, but these focused on perceived best practice in procedures rather than evaluating performance. The major reviews in the early 1990s were the 1991 Efficiency Unit report Making the Most of Next Steps (Efficiency Unit 1991), a report to the Cabinet Office, conducted by a French civil servant called Sylvie Trosa, following up the issues raised by the 1991 report (Trosa 1994) and the 'Massey Report', produced by an academic for the Cabinet Office, concentrating on progress with previous recommendations for improvements and how information was fed into the policy making process (Massey 1995). After the mid 1990s the focus shifted from reviewing the creation of agencies to improving performance. This was exemplified by the report, The Strategic Management of Agencies (Next Steps Team 1995), which examined the different models for management used by agencies. There were few central initiatives or comprehensive reviews of performance and most performance information was handled at departmental and agency level.

Although most checking of agency performance was left to departments, which was largely consistent with the model, there were several central

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initiatives that limited the ability of agencies and departments to develop their own systems. The most significant conflict was in procurement. The Treasury introduced the Competing for Quality programme in 1991. This programme required departments and agencies to subject activities to competition by examining whether tasks could be better handled by a private firm leading to better efficiency and effectiveness (Treasury 1991). The 1991 White Paper required departments to propose a programme of activities which were to be reviewed. Departments discussed with agencies activities that were reviewed. A review of the initiative found a tension between this central drive and agencies' autonomy, a particular issue arose for small agencies whose managers felt driven to conduct evaluations of activity for very small groups of staff which in the process incurred high costs out of all proportion with potential benefits (Efficiency Unit 1996: 29 and 31). Even in large agencies like the Benefits Agency, managers felt under pressure to be seen to contract out activities to meet the central targets rather than undertaking the review process simply to improve working within the agency (I13 Senior Official, Benefits Agency).

Another central initiative was the Citizen's Charter programme led by the Cabinet Office. It included a requirement for bodies that dealt with the public to demonstrate performance against standards of service. The Cabinet Office required, after the launch of the Charter in 1991, that Framework Documents and plans reflect Charter statements about quality of service (Chancellor of the Duchy of Lancaster 1994: ii). However this scheme presented less conflict with the agency model than Competing for Quality, because the standards were largely self set and integrated within existing structures, such as performance targets. The Cabinet Office had little day to day contact with agencies (IA9 Senior Official, Cabinet Office). In the case of the Benefits Agency, the main involvement was the Citizen's Charter Unit monitoring of standards of service. The Unit was described as an important influence on standard setting by one senior Benefits Agency staff member because the standards had to be approved by the centre. The need for approval reduced managers' autonomy in setting standards (I13 Senior Official, Benefits Agency).

Conclusion

The findings about how the model worked in practice during the period suggest that, as an overall group, there were widespread difficulties in separating out tasks and stopping ad hoc intervention by departments. But severe problems, reflected in disputes about accountability for performance, were limited to a few bodies, notably the Child Support Agency and HM Prison Service. The Benefits Agency illustrated the difficulties of separating strategic policy from executive operational responsibilities and the retention of ad hoc powers of intervention by ministers. However, in this case, there was an uneasy compromise which did not attract as much parliamentary and other attention as in the high profile problem cases. Flexibilities were given to agencies in budgeting and accounting. The most substantial delegations were associated with the trading agencies, although surveys reveal a range of flexibilities in other agencies. There was substantial delegation of pay and grading to agencies and evidence of diversification in working practices between agencies. The Benefits Agency reflected these general patterns.

The practice of departmental regulation was partially consistent with the agency model for most agencies. The periodic reviews of agency status did sometimes result in changes, including abolition and privatisation. These outcomes demonstrate that the process was not just a nominal consideration of status. However, there were widespread failures to produce performance targets that were simultaneously challenging, comprehensive and reliable. There were major problems of implementation of this part of the model in the Benefits Agency, with performance targets not reflecting all the aims of the organisation and substantial inaccuracy in reporting performance against some targets.

The relationship with other bodies operated in a way largely consistent with the model. The difficulty of separating out tasks between agencies and departments combined with ministers' continued ad hoc intervention sometimes caused difficulties in reporting to Parliament, which was unsure of whether to allocate responsibility for failures to ministers or agency staff. These problems

were only severe in a few high profile cases, principally prisons and child support, but the tension was evident in the Benefits Agency. In this case, both the Chief Executive and departmental officials regularly appeared before parliamentary committees. Agencies were incorporated in the existing system of Treasury appointed accounting officers by designating chief executives accounting officers for their agencies. In many cases the agencies were granted freedoms from central rules, most notably for trading agencies. The Benefits Agency had responsibilities for accounting as a distinct unit, with the Chief Executive being appointed Agency Accounting Officer and Additional Accounting Officer for some parts of the organisation's budget.

Figure 3.1:Benefits Agency and DSS Headquarters Organisational Chart

Department of Social Security Headquarters
-Secretary of State and ministers
-Permanent Secretary and senior policy staff

Performance targets

Budget

Performance and other information

Benefits Agency
Chief Executive
Central Services
-Finance
-Personnel
-Policy and Planning
-Medical Services
-Change Programme

Territorial Directorates
-Scotland and North
-Southern
-Wales and Central England
(each containing local districts)

Services to welfare claimants

Services to other public bodies

From April 1996 the number of territories in the Benefits Agency was reduced from 3 to 2

Source: Benefits Agency (1992:33-35, 1997:7)

Part Two: Explaining Agencification and its Consequences

Chapter 4: The Public Interest Model

'It is difficult to put a figure on the benefits which should become available from our recommendations but the potential is obvious. Five per cent of Civil Service running costs amounted to £630m in 1986-87, and experience elsewhere certainly indicates that when good management has the opportunity to perform well, percentage improvements larger than this are achieved...But a primary aim of the recommended changes is to improve the delivery of services both to the public and to Ministers' (Efficiency Unit 1988:16).

Part Two explores the second main research question by seeking to explain why the 'Next Steps' reform occurred in the way that it did. The public interest model is developed as an explanation of reform based on official justifications for the change. Section One sets out the foundations of the public interest model through a survey of the justifications offered by government, including those contained in the 1988 Efficiency Unit illustrated by the above quote. The survey enables the predominant account to be identified, centred on the reasons given in the 1988 Report, as the basis for developing the public interest model. Section Two develops the public interest model to form an explanation for the use of agencies with hypotheses that are amenable to empirical evaluation. Section Three conducts the first part of an empirical evaluation of the public interest model by exploring whether it appears to account for the pattern of implementation described in Part One.

Section One: The Foundations of the Public Interest Model

There are considerable difficulties in attempting to identify the 'official' account of the reform. The official explanation of Next Steps is not available in any one source, there was no single blueprint for the reform. Instead, indications of the reasons for the reform were presented by government organisations in official publications, especially the original 'Next Steps' report, and statements of politicians and civil servants involved in the reform. The original 'Next Steps'

report was very short, only 35 pages in length. However, it originated the reform and is taken as constituting the core of official justifications for the reform.

The Report argued that agencies were needed to deliver government services as 'effectively as possible' (Efficiency Unit 1988:9). The Report suggested that benefits in terms of economy would flow from the recommendations, stating 'it is difficult to put a figure on the benefits which should become available from our recommendations but the potential is obvious. Five per cent of Civil Service running costs amounted to £630m in 1986-87, and experience elsewhere certainly indicates that when good management has the opportunity to perform well, percentage improvements larger than this are achieved' (Efficiency Unit 1988:16). But the Report said the main aim was to 'improve the delivery of services both to the public and Ministers' (Efficiency Unit 1988:16). In particular, it noted potential benefits in terms of effectiveness, stating 'With total programme expenditure of £128b (1985-86), there is an immense opportunity to go for substantial improvement in outputs, with better delivery of services and reduced delays as an alternative to savings' (Efficiency Unit 1988:16).

The reasons why agencies were supposed to bring about benefits were only sketched in the initial Report. It stated that several features of the pre-agency system were inhibiting performance and a move towards the agency model was needed. The Report asserted that the civil service was too big to be managed as a single entity. More flexibility was needed to allow managers to adjust their systems to suit the needs of the job at hand. Freeing managers in agencies from intervention from the department and ministers was supposed to enable them to focus on the task at hand. At the same time, the agency model was also supposed to free up people in the department to concentrate on their core activity of policy advice, where ministers, Parliament, the media and the public demanded that more time was spent on these activities. The use of more clearly defined aims associated sections of budget in the policy and resources framework for each agency was supposed to focus managers' attention on getting the job done efficiently and effectively, reducing costs where this did not compromise effectiveness (Efficiency Unit 1991: 9-13). The agency form of

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organisation was supposed to be more suitable for dealing with 'executive' operational activities rather than 'policy' strategic tasks (Efficiency Unit 1991:9). Executive activities were seen as suitable for control by the strategic policy and resources framework.

Other statements about the reform reflected a similar belief. An unofficial history of the reform was written by Diana Goldsworthy, who was one of the original members of the Next Steps Project Team. Whilst the document was not called an 'official history' it clearly had the approval of senior officials; Sir Robin Butler, then Cabinet Secretary and Head of the Civil Service, commissioned the pamphlet and wrote its Forward (Goldswothy 1991:I-ii). Goldsworthy reiterated the benefits of the agency form and argued that much central government work was executive in nature, commenting that 'a very high proportion of government activities can, in principle, be run on an agency basis' (Goldsworthy 1991:25).

The same position was stated in the Continuity and Change White Paper in 1994, which commented that 'The Government does not...envisage extending the formal establishment of agencies into areas of the Civil Service primarily concerned with policy' (Prime Minister, Chancellor of the Exchequer and Chancellor of the Duchy of Lancaster 1994:13). There were few statements of the reasons for the reform by departments, beyond it being government policy applied to a particular area of government. In the case of the Benefits Agency, the advantages were stated as being 'delegation with clear lines of responsibility and accountability, clearly defined targets and challenging performance targets, published annual reports, making the business more open to scrutiny, greater emphasis on the business and customer service' (DSS 1993:3). The Benefits Agency commented on similar advantages, allowing the organisation to focus on the needs of customers while working within a framework set by ministers (Benefits Agency 1991:5).

However, there were disputes about how radically delegation should be pursued and the benefits of such a change. The justification for the creation of automomous agencies was not accepted by all parts of government at the start of

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the reform period. Treasury was not happy with the plans to give organisations more autonomy and in the early stages opposed the reform. There was a long delay between the study's completion in March 1987 and its publication in February 1988, in part reflecting the lack of agreement. Nigel Lawson referred to the Treasury's concern that the reform would lead to difficulties in controlling the expenditure of agencies because of a lack of market discipline inside the public sector (Lawson 1993: 393). However, the Treasury changed its view, arguing that the agency model could be applied, and budgets controlled, within the existing public expenditure and accounting systems. The Treasury moved its position to one more consistent with the Cabinet Office/Efficiency Unit view. The Treasury acceptance of the principle of 'strategic' management of public expenditure was reflected in changes under the Fundamental Expenditure Review of its own activities in the mid 1990s (IA3 Senior Official, Treasury). As part of this change, the Treasury gave up detailed controls, for example relating to approving smaller items of capital expenditure, in exchange for better strategic control of expenditure using key performance information (Parry, Hood and James 1997).

There were differences of opinion within the Cabinet Office. The first Next Steps Project Manager, Peter Kemp, suggested that a radical approach to allow agencies as much freedom as possible was needed to enable them to innovate and improve performance. In contrast, Sir Robin Butler, the Head of the Civil Service, wanted to preserve some of the common conditions of service across the Civil Service, in part because of the flexibility in organisational arrangements this facilitated (Butler 1991). Eventually Kemp resigned, prompting him to attack his former colleagues and the reforms 'There are welcome breakthroughs but they do not add up to a revolution. At the centre, in Whitehall, old attitudes and the old guard prevail. The only heads that have rolled have been among the revolutionaries themselves' (Kemp 1993:8 quoted in O'Toole and Jordan 1995:9).

There were similar disputes in the case of the Benefits Agency. The DSS Headquarters stated that 'Whilst seeking to take maximum advantage of the freedoms offered by central initiatives such as Next Steps, the Department

remains a single organisations with inter-linked businesses and a shared set of management purpose and aims which underpin the wider aims and objectives of the social security programme. The Department allowed agencies to develop their own personnel systems but only on the basis that they took account of the wider departmental interest (DSS 1993:24). The tension between keeping controls and allowing autonomy was reflected in the Benefits Agency arguing that the main benefits of agency status came from freedom from controls, providing 'the opportunity to give the Agency a clear sense of identity and direction' (BA 1992:5). However, Kemp's departure reduced the significance of these contradictory positions, but the tension was important throughout the early period of the reform from 1988 to 1993. After this time, the view that delegating pay and grading structures and greater freedoms was beneficial but only within some continuing system wide rules was the dominant position.

The official accounts of the reform were not based on marshalling evidence systematically to support the case for reform. Part of the 1988 Report's title, 'Next Steps', reflected the document's origins in a 'common sense' practitioner based reflection on progress in improving government rather than theory building and systematic analysis. The Report, began 'As a result of initiatives taken since 1979, the management of government business is much improved...But there is still a long way to go' (Efficiency Unit 1988:1). The evidence marshalled in support of this position did not amount to a systematic analysis of the performance of the 'reformed' and 'traditional' parts of government over the period. Interviews were conducted with over 150 ministers and officials and group discussions held with many others. There were also field visits to see different parts of the system in action, analysis of previous Efficiency Unit scrutinies of work practices and meetings with three outside organisations. But the study only lasted for 90 days over the period November 1986 to March 1997 (Efficiency Unit 1988: 33-34) and were presented in an impressionistic way. The recommendations were asserted rather than being supported by systematic evidence. There were no tables of data or figures to illustrate the superiority of the agency form over current arrangements. Much evidence was anecdotal, reporting 'frustration' at central controls amongst people working in the field and benefits from moving towards

clearly defined and budgeted management where these had taken place (Efficiency Unit 1988:3-4).

The Report suggested that the adoption of agencies had not occurred before because there had been a lack of attention to the management of services over a prolonged period. The Report argued that new recruits to the Civil Service quickly became aware that the route to the top was through policy not management (Efficiency Unit 1988:3). Although the 1988 Report was not the first time that agencies had been suggested as a model for the organisation of government, the Report did not analyse the operation of similar forms in the past. A similar delivery structure was identified by the 1968 Fulton Report into the Civil Service and was experimented with in the 1970s. The Fulton Report recommended the possible 'hiving off' of executive functions to accountable management units. It made proposals to distinguish between those whose primary responsibility was to plan from those who were mainly involved in provision of services and to establish clearer means of holding departmental branches and individuals responsible for performance (Fulton Committee 1968:51). Similarly, the 1970 Report The Reorganisation of Central Government suggested that functions be aggregated into a series of large departments with blocks of executive work 'delegated to accountable units of management, thus lessening the load on the departmental top management' (Prime Minister and Minister for the Civil Service 1970: 6). There were bodies established in the 1970s which were like agencies, for example the Employment Service and Property Services Agency (Pollitt 1984). But the 1988 Report did not examine the operation of these bodies in much detail, beyond referencing earlier reports relating to these experiences (Efficiency Unit 1988: 31-32).

Whist the 1988 Report was vague in its specification of the benefits of agencies, it was more concrete in suggesting the way agencification should proceed. It argued for a strong central management team to set the framework within which departments should identify and establish agencies (Efficiency Unit 1988:4-5, 9-13). The Report argued that the full support of the Prime Minister and Head of the Civil Service along with other ministers was essential for making the reform happen (Efficiency Unit 1988:12). The Report argued that a full Permanent

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Secretary was needed as 'Project Manager' to lead the reform and oversee the departments (Efficiency Unit 1988:13). This position came close to suggesting that there might have been some resistance to the reform from within the service rather than just a need for central co-ordination. Goldsworthy noted the importance of designating a full Permanent Secretary as a 'Project Manager' to ensure that the change took place, sending out a signal that the reform was not just hot air. She also recognised the importance of the Prime Minister's and Head of the Civil Service's authority in pushing for change (Goldsworthy 1991:10-11). The Project Team 'was prepared to challenge their views when necessary', when the team thought more progress could be made (Goldsworthy 1991:21).

The Project Team's statement that central direction was needed partially contradicted suggestions that the Civil Service was wholehartedly behind the reform. The Head of the Civil Service noted that the success of the reform was in part the result of 'the wholehearted support of the Government and the Civil Service itself, as well as other powerful bodies, like other political parties, members of Parliament and trade unions.' (Butler 1991:i-ii). At the same time he also noted the importance of the Project Team as a catalyst and the contribution of staff. Goldsworthy's book strikes a similar note at some points, giving the Report team credit for crystalising a feeling in the service that structures needed to change and recognising 'The role of the silent and often apparently invisible majority of civil servants seemed at last to have been recognised and, unlike previous reforms, it seemed likely to be driven 'bottom up' rather than imposed 'top down' (Goldsworthy 1991:8).

The official account also stressed that departments themselves were to take the lead in creating agencies, using a standard general framework with considerable flexibilities for application to their specific activities. The official account at times emphasised the lack of a central rationale, and even the lack of clear criteria for setting up agencies. Goldsworthy stated that, once it was decided that a service should remain in government, agency creation was considered but that 'There are no absolute rules about this. One factor to be taken into account is the extent to which the executive function can be separated from policy-making. The definition of what constitutes "policy" as opposed to
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"executive" work was a matter of some discussion initially but, as with many aspects of Next Steps, it has not proved difficult when dealt with pragmatically, case by case' (Goldsworthy 1991:25). The agency form in particular departments was the result of this process. Reasoning in each department was evident in justifying the creation of agencies.

The creation of the Benefits Agency was justified as a variation on the general central theme rather than a slavish application of central edicts. The Department of Social Security reviewed its activities in the light of the Next Steps programme in the late 1980s. The reasons for the creation of the Benefits Agency were given both in statements justifying the creation of the agency and in statements about activities that were kept in the department or put into other agencies, and by implication not put in the Benefits Agency. The overall justification was that the separation of strategic functions from executive work would be beneficial, but within an overall departmental structure which gave the business a departmentally oriented corporate identity. People involved in the central Project Team commented approvingly on the changes in the Department of Social Security because the activities being put into agencies were 'so integral to the parent Department' (Goldswothy 1991:36).

However, officials who were not directly involved in the creation process in the DSS later commented that the rationales offered by the Caines and Hickey reports were based as much on the practicality of changing the existing organisational structure as starting with a blank sheet of paper (I 13 Senior Official, Benefits Agency; I15 Senior Official, Benefits Agency). There was no justification of limiting the search process to activities within the department beyond the pragmatism of the approach. The Resettlement Agency was announced as the first candidate early on, in February 1988, on the basis that it was a separable business with routine tasks (Greer 1994:33). At that time, it was argued that the other parts of the Department needed more time for consideration. When the reviews were completed, the justification for the broader changes was primarily set out in terms of the ease of identifying separate businesses which could be controlled using the agency model. This argument was used to justify establishing separate agencies for contributions, information

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technology, general welfare payments, child support and war pensions. The remaining departmental procedures were meant to ensure co-operation between these bodies when needed and set strategic direction. However, contradictions in the official justification were evident at the departmental level as well as the general level. In the DSS, there was a divergence of opinion about the extent to which agencies could be separated from each other. The Hickey Report suggested keeping contributions and welfare payments together whilst the Permanent Secretary, whose opinion was reflected in the final outcome, suggested separating them (Greer 1994:34-35).

Section Two: The Public Interest Model

The public interest model developed in this section tries to form a coherent, complete, justification that can be empirically evaluated based on the official accounts described in Section One. The explanatory model gives reasons why changes came about in terms of aims of the reformers, including reasons why the agency model was supposed to be beneficial, and the action taken by reformers to bring the changes into practice. The public interest model 'irons out' the contradictions by taking the preponderance of views where these clashed developing a theoretically informed framework drawing on the agency and agencification models from Chapter One.

The public interest model is structured in two parts. The first part seeks to explain the way the agencification process was undertaken in the way that it was. The dominant view from the official accounts, as contained in the 1988 Efficiency Unit Report, was that the Civil Service acknowledged the need for change but needed a central unit and central leadership to co-ordinate the reform, with the centres of individual departments identifying candidates and setting up agencies. The central team advocated a pragmatic approach in this respect following the basic principle that departments were in a better position to judge the setting up of agencies than the central units. The model suggests that the division of responsibilities simply reflected specialisation, side-lining apparent differences of opinion about the reform, including the early objections from the Treasury and disputes between the Project Manager and Head of the Civil

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Service about the extent of freedoms. Instead, it stresses the unitary nature of the central state as an actor pursuing the goals of the reform through use of the agency model.

The second part of the model refers to the overall goals of the reform and why the agency model was supposed to be beneficial. The official goals are most coherently expressed as improving performance in terms of the public interest. This justification suggests that the central state sought to pursue this interest by using agencies as a delivery structure for public services. The model treats the politicians and central civil servants in the central agencies and centres of departments as a single actor seeking to promote general welfare. In analysing markets, the public interest is conventionally viewed as the interests of individuals as promoted by free markets in which there is voluntary exchange of goods and services with no market distortions, rather than the interests of privileged groups. Reading-across to the public sector, where there is public ownership and funding and conventional markets do not operate, the public interest must be redefined. It can be translated as the interests of individual taxpayers and, broadly defined, users of public services as opposed to the sectional interests of narrow interest groups who can exploit a privileged position for their own benefit (James 2000). Both the 1988 Efficiency Unit Report and the Government's response to it vowed their intent to improve public service delivery for ministers and the public and to promote effectiveness, efficiency, and economy. This last goal is potentially contradictory in some circumstances, for example if budget rises but output rises faster than inputs then efficiency improves but economy worsens. However, it is consistent to the extent falls in inputs are associated with stable or rising outputs, and can be considered separately where this is not the case

The public interest model further suggests that agencies are especially suitable for achieving these goals. It explores the choice of the agency model compared to the other organisational forms for delivering public services that were identified in Chapter One. A useful framework for considering choice of service delivery structure from within the public interest perspective is provided by transaction cost analysis. This analysis is part of the new institutional economics,

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a body of research that seeks to understand the variety of institutional and organisational arrangements adopted to govern economic activity using techniques drawn in particular from economics but also from organisation theory and law (Williamson 1996:3-20). Standard economic theory suggests that specialisation in production leads people to trade for mutual benefit and that trade requires co-ordination. In some contexts the price mechanism and markets will be all that is required. But transaction cost theory develops from the recognition that neo-classical economic theory's ignores costs which arise from impediments to reaching and enforcing agreements.

Transaction costs arise because of bounded rationality and opportunism in a world where uncertainty prevents everything being written down in advance. Bounded rationality is individuals' limited ability to realise their intentions, people are hampered by their limited knowledge, foresight, skill and time. Opportunism is transactors' willingness to attempt to obtain a more favourable distribution of the gains from trade by reneging on agreements or in some way exploiting trading partners. Opportunism can involve behaviour within agreements, so called 'moral hazard' such as shirking or alternatively trying to get favourable terms for the agreement in the first place. Transaction costs vary in significance according to dimensions of the transaction. The relative significance of these dimensions influence the 'efficient', in terms of transaction cost minimising, organisational form. The relative importance of different features of transaction varies in different transaction cost models but typical dimensions include asset specificity, problems of performance measurement, frequency of interaction and complexity of writing contracts (see Milgrom and Roberts 1992:Ch 2, for a more extensive discussion). The dimension of asset specificity illustrates the approach for its use in this research. Asset specificity is the degree to which assets are specifically designed for or located for a specific user. This feature makes redeployment of assets from their current use less attractive and encourages conflict between contracting parties. A simple form of market organisation offers the potential for the party owning the asset to be exploited after making an investment because the party they contract with knows the value in the next best use is low and can renege on agreements, perhaps discouraging beneficial exchanges from occurring at all. In contrast, vertical integration of production in which production is internalised alters the legal

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relationship between the transactors. It allows transactors to overcome some of the problems of market exchange by placing more duty on employees to act in the interests of employers and internal management acts as a 'court-like' body in the case of disputes rather than external court system.

Transaction cost theory explains organisational structures as the outcome of a process of minimising transaction costs by aligning different organisational forms with transactions of different features. There are two main variants of the minimisation process, sometimes labelled the 'blind' and 'deliberate' models (Buckley and Chapman 1197:127-8). The 'blind' model derives from the population ecology of organisations and suggests that organisations are not intelligent and purposive, using an analogy of DNA in biological theories of evolution. Instead each generation of organisational form replicates itself with a minor random variation which will affect its likelihood of surviving in an environment. Only organisational forms that survive are able to replicate themselves. . These problems include the risk of tautology in explanation by arguing that 'survivors survive', the problem of identifying an organisational unit which conveys structure across generations of organisation as an equivalent of the gene in evolutionary explanations in biology. Finally the mechanism for selection in an evolutionary account in the public sector is not clear. In a competitive market it is possible that poorly performing firm would be removed by market forces. In the public sector there is not a market in the same sense, so some form of political market environment which affects the survival of different organisations would need to be assumed (see Buckley and Chapman 1997 129-131 for a more extensive discussion of these issues). In contrast the deliberative model stresses that individuals in an organisation are willing and able to minimise transaction costs. In the account, managers weigh up the transaction costs of different organisational forms and choose the form that minimises the costs, for example in deciding whether to make a component 'in house' or buy it from another firm.

The deliberative form is used here. It consists of modelling the choices made by officials at the heart of the central state when weighing up different ways of delivering public services in terms of their implications for minimising transaction costs and, in so doing, promoting the public interest. The public

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interest account assumes that actors who might be drawn on to deliver public services are not always publicly interested and may act in their self interest. This tendency causes government failures where people delivering services exploit their monopoly position as providers of a service or where bureaucratic 'agents' can exploit 'principals' because they have an informational advantage about the activity they are performing (Wolf 1979; Vining and Weimer 1990). The consequences of these failures include goal displacement where the aims of a public body are altered by those running it, under or oversupply of public services where too much or too little is produced, wasteful production where services are produced at a cost in excess of what could be achieved, and difficulties in ensuring the quality of public services.

Transaction cost analysis enables different forms of delivery, in this case the choice between the status quo departmental form and alternatives including the agency model, to be considered within a common framework of comparable costs and implications for stopping government failures. The agency model is one variation of the use of authority for publicly owned central state bodies, as defined in Chapter One. In terms of transaction costs, the use of ad hoc authority enables better responses to uncertainty than rules, because delivery can be constantly reformulated for new cases as they come along. The ad hoc form is also particularly good where product quality is difficult to specify, because it can be changed as the situation evolves. However, this form has high monitoring costs for senior politicians and officials, who have to spend time and effort formulating unique responses to situations. In contrast, rules are lower cost because once established they can be used to deal with a number of instances. However they are not well suited to dealing with uncertainty and where product quality is hard to monitor, because they are, by definition, more rigid than ad hoc systems. The authority is directed to inputs or outputs. If outputs can be specified for a service then these forms are clearly going to be beneficial than if they cannot easily be specified. The same applies for inputs, although these are usually taken to be easier to specify for a wider range of activities, because it is easier to specify something like a budget level than an indicator related to the goals of an organisation (see Smith 1993:1-19).

The agency model, in its pure form, makes only very limited use of ad hoc intervention. Instead it relies on output focused rules and freedom from input rules. This combination is supposed to allow the agency, especially the chief executive, to focus on the task at hand. However, there are variants of the agency model and important differences between trading and non-trading types. In trading types, with some form of charging, the agency form is enhanced by direct 'bottom up' control by the consumers of services produced by the organisation as well as 'top down' control through the regulatory system. For this reason, there are fewer input controls over the level of budget. In contrast, non-trading agencies have input controls. The contract/transfer non contract/transfer distinction produces different types of control. In contract/transfer agencies, budgets are passed on to individuals or other organisations to achieve goals. There are fewer controls on the use of this money once it has been passed on, and achieving the task is either left up to them or written in some form of contract. In contrast, in non-contract/trading bodies, the budget remains within the direct control of the organisation.

The agency differs from other forms of organisation discussed in Chapter One. A key difference is with the traditional departmental model that makes extensive use of ad hoc controls on both inputs and outputs. Whilst rules may also be used in departments, the dominant characterisation of the form is ad hoc control. The agency form is expected to be more transaction cost minimising than traditional departmental forms for activities where outputs are relatively easy to specify, product quality is not difficult to establish and uncertainty is low. The agency does not need the high cost monitoring used in the traditional department to control these activities.

The model suggests that routine, executive, operational activities should be located in agencies rather than departments. In contrast, the agency form is less suitable for complex activities that are constantly changing. These activities are difficult to control using output rules and require ad hoc control. Such activities include non-routine, policy and strategic work. However, the trading type of organisation has some suitability for this form of non-routine work, because of the 'bottom-up' responsiveness to customers which enables a more flexible response to these sorts of tasks.

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The agency model differs from providing a service using a private firm under contract. In the contractual model, the activity is passed on to a privately owned body. The public sector loses the ability to reorganise the activity in any way that it likes, instead control is through the contract. The contract contrasts with the controls that are available within an organisation, which are most extensive in a department but also available, with limits on ad hoc intervention, in the agency model. Instead, the public sector must rely on the contract with the private firm, which is vulnerable to opportunism for a range of activities where there is a need for flexible responses and where outcomes are difficult to specify.

The public interest model justifies pure and mitigated agencification, in cases where there has been an increase in the desirability of the agency form of organisation relative to the departmental form and where the agency form is preferable to other alternatives, such as contracts. The change is triggered by a rise in the costs of ad hoc control, a fall in the costs of rule based control, or policy makers coming to a better understanding in their deliberation of the possible delivery structures available to them. The nominal form of agencification does not involve a substantial change in organisation and is consequently not a significant change in terms of the model, instead it is a re-labelling exercise.

The public interest explanatory model suggests a number of hypotheses about the agency model and agencification processes. These hypotheses are amenable to empirical evaluation and are summarised in Table 4.1 below. The aim of empirical evaluation is limited by the available evidence, the paucity of which has been commented on both by academics and officials (Trosa 1994: Pollitt 1995). However, the approach adopted here uses officially produced information analysed in unconventional ways, supplemented by interviews and other sources of information about performance from non-governmental sources, to evaluate the public interest model.

The first hypothesis relates to the process of reform as developed in the first part of the public interest model. It is evaluated using material collected in Part One

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about the process of reform and the official justification as outlined in Section One of this chapter. The second hypothesis relates to changes in transaction costs and is evaluated by considering these costs and evidence of deliberation by actors in the central state. The use of agencies for executive work is evaluated using the pattern of agency creation mapped in Part One and the type of activities handled by agencies. The third hypothesis relates to how the agencies performed and whether they were better than alternative forms of organisation. This issue potentially involves counterfactuals, such as what might have happened had departmental organisation continued or some alternative form been adopted, for which information is not directly available. However, examining whether the performance of agencies was seen as acceptable by those who set them up gives an indication of the adequacy of the agency model. Comparing performance before and after the reform allows some consideration of agency performance relative to traditional departmental forms. Evaluating the impact of agency structures on performance using evidence about their effects yields further information about whether the model achieved the aims that were expected of it.

Table 4.1 Hypotheses Drawn from the Public Interest Model

Part of Model	Hypotheses
One (process of reform)	1) Pure and mitigated agencification was conducted by a unitary central state seeking to deliberate and minimise transaction costs
Two (rationale for reform)	2)Transaction costs changed in the 1980s or the state's deliberations were brought up to date in this period triggering pure and mitigated agencification for 'executive' activity rather than 'policy' activity and transaction costs were unchanged in cases of nominal agencification 3)Agencies performance was in keeping with the expectations of transaction cost analysis in terms of economy, efficiency and effectiveness and performed better than alternative forms of organisation

Source: Section Two of this chapter

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Section Three: Evaluating the Public Interest Model's Interpretation of the Reform Process

The first hypothesis is evaluated using evidence from the reform process in Part One and the official justification in Section One of this chapter. The official justification lacked coherence because of disputes between the Treasury and the Cabinet Office, between the Project Manager and Head of the Civil Service within the Cabinet Office and between the Cabinet Office and departments, who were involved beyond implementing a centrally worked out plan. The central state did not appear to be a unitary actor. There were a number of apparent inconsistencies in the official description of the reform, especially by the Project Team. They designated all cases of 'agency creation' as broadly part of the same Next Steps reform, but this does not seem appropriate in terms of the practice of reform. The reasons why the 14 per cent of cases of nominal change identified in Chapter Two, should have been lumped together with 83 per cent of cases where the reform was a significant change are not clear from the public interest model. This issue was particularly important in trading type agencies where 30 per cent were the result of nominal changes. These problems were side-lined in constructing the public interest model as a coherent rational for reform, but they mean that this aspect of the reform requires an alternative explanation.

The second hypothesis is more difficult to evaluate. According to the public interest view, factors that could have stimulated a movement towards the agency model included a reduction in the costs of using standards or rule-like structures to measure performance and a rise in the cost of using of ad hoc controls. Evidence of these changes was cited in official statements. The 1994 White Paper Continuity and Change stated that 'Changes in society, technology, in international relations, in the world economy all have an effect on what the Civil Service is required to do and how it needs to do it' (Prime Minister et al 1994:10). New technology facilitated management information systems that were necessary to run the regulatory system and which were not previously available (Prime Minister et al 1994: Ch2).

There seem to have been general changes across the public and private sector affecting the suitability of the agency form. The literature on wider NPM changes suggests that 'the demise of bureaucratic control strategies was made possible by alterations in technique which revolutionised the handling of information concerned with the planning, design, co-ordination and supervision of production.' (Hoggett 1991:247). The broad trend towards agency-like structures in the private sector throughout the latter part of the 20th Century was noted by Williamson in his discussion of the move from U to M form firms (Williamson 1976).

The U form consists of a general manager supervising specialist managers, who may be responsible for different functions in the organisation. The M form came to replace the more integrated U form as businesses became bigger by adding new product lines and the costs of monitoring by a single central management became higher. The advantages of the M form firm are that responsibility for operating decisions are assigned to essentially self contained operating divisions which operate as quasi-firms. The corporate staff attached to the central office advise the operating divisions and also audit or regulate these units. The organisational separation allows the central unit to get on with the strategic direction of the business rather than the individual affairs of units.

The shift towards the U form of organisation reflected competitive pressures, making firms adapt in order to survive in a world of new technological opportunities (Hill and Pickering 1986). The changes in the private sector provide some support for viewing agency creation as the government recognising analogous benefits within the public sector by deliberation rather than competitive pressure. In the private sector individual units are set goals which reflect their contributions to organisation's overall aims, usually some form of profit maximisation for the unit. In the agency model the goals are more complex and revolve around performance targets for services as part of the regulatory framework, but the principal is similar.

Whilst general changes towards use of agency-like forms provide some indirect support for the public interest model, it is difficult to quantify alterations
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in transaction costs and their impact on the increased suitability of the agency form. But a necessary condition for the public interest model's empirical validity is that agencies were used for activities which the model suggests were suited to this form. If agencies were used for non-routine policy as well as routine executive tasks the justification for its transaction cost minimising properties for certain activities would not be valid. Examining the 155 agencies outlined in Part One using information about their activities obtained from Cabinet Office reviews of their work enables agencies to be classified into those predominantly handling routine activities and those predominantly dealing with non-routine activities. The full survey, and methods used in the survey process, is presented in Appendix 4 and the results for types of agency are summarised in Table 4.2. Whilst individual agencies were involved in a mixture of activities, the bodies are classified in the group most closely reflecting their activities overall.

Table 4.2 Types of Agency Classified by Routine or Non-routine Activity (with Percentages for Type) and Examples

Type	Routine Activity	Non-routine
Delivery	69 (58 per cent) eg HM Prison Service	50 (42 per cent) eg National Engineering Laboratory
Trading	10 (67 per cent) eg QE II Conference Centre	5 (33 per cent) eg Meteorological Office
Contract/transfer	20 (100 per cent) eg Benefits Agency	0 (0 per cent)
Trading/contract/transfer	1 (100 per cent) The Buying Agency	0 (0 per cent)
Total	100 (65 per cent)	55 (35 per cent)

Source: Appendix 4

The findings appear to be partially inconsistent with the second hypothesis. Only 68 per cent of agencies handled the expected type of activity. 100 agencies, or 65 per cent, were involved in routine tasks, with 55, or 35 per

cent, involved in non-routine activity. Involvement in non-routine activities was most significant in the delivery type, followed by the trading type, but was not found in the contract/transfer or trading/contract/transfer types. According to the model, the trading agency form is suitable for both routine and non-routine tasks because of its 'bottom up' flexible responsiveness to customers, so the 5 trading agencies in the non-routine category were broadly consistent with the model's expectations. The non-routine delivery type bodies were predominantly small research and/or consultancy organisations, for example the National Engineering Laboratory and the Natural Resources Institute. However, the apparent 'misuse' of the agency model requires explanation.

However, the activities that were put in agencies are only half of the picture. As important were the activities that were not put in agencies but instead remained in departments. Using the same method as for agencies, but using information from departmental reports, the sections of agencies' parent departments are classified by bureau-tools type and activity in Appendix 5. Of the 138 sections, the majority fitted the non-routine activity delivery type with 93 sections, or 67 per cent, handling non-routine activities. 32 sections, or 23 per cent, were non-routine delivery and non-routine contract/transfer types and 12 sections, or 9 per cent, were handled non-routine activities and were of the contract/transfer type. Only one, the Immigration and Nationality Department clearly fitted the routine delivery type, although that is not to say that routine activities were not found in most if not all of the other sections, just that this activity did not predominate in these sections. In overall terms, sections of departments as a group are more involved in non-routine activities than agencies. This finding seems to partly explain the variation in the use of the agency form across departments found in Chapter Two. Departments with a large amount of suitable activities, such as the Department of Social Security, had a higher proportion of their work transferred to agencies than those with less suitable activities, for example the Foreign and Commonwealth Office.

In the case of the Benefits Agency in the DSS, a contract/transfer type was created handling predominantly the routine activities of paying out benefits to claimants. As was shown in Chapter Three, the Agency did have some non-

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routine activity related to operationalising policy statements provided by the Department but this did not take up a large part of the agencies' staff and resources. The rump of the Department left behind by the agency creation process was the DSS Headquarters. The Headquarters section's activities were focused on non-routine policy development, supporting ministers, corporate strategic management of the department and legal work (DSS 1993:24). In these ways, the case of the Benefits Agency and its department reflected the dominant pattern of agencies handling predominantly routine activities.

A second indicator of the degree to which an activity was routine is provided by the political saliency of the activity. This indicator allows the finding based on the basis of examining work tasks to be double checked. Political saliency is defined in terms of ministers' interest in day to day issues, with high saliency indicating the non-routine nature of activities and potential desire to intervene in an ad hoc way. A measure of political saliency is provided by the number of Written Parliamentary Questions asked by Members of Parliament relating to different bodies. The political salience of activities handled by agencies in aggregate terms appears to have been much lower than for the rest of government. Taking 1995 as a census year, a time when the bulk of agencies had been established, there were a total of 3,374 questions for all agencies. This contrasted with a total figure of 41,620 for non-agencified parts of government in a combined total of 44,994 questions for all central government. Questions relating to activities handled by agencies were just 7 per cent of the total, despite agencies employing almost 60 per cent of all civil servants (Public Information Office, Department of the Library, House of Commons 1997:2; Table 2.1, Chapter Two).

The results for individual agencies reflect low saliency relative to other sections of government. The survey of agencies is in Appendix 6 is based on the 98 agencies for which data was available, out of 102 that existed at the start of 1995, because 4 agencies were either privatised or in some way reorganised in that year. The mean number of questions for agencies was 34, with a lower median of 16 questions. The agency with the most questions was HM Prison Service, with 613 questions, followed by Social Security Child Support Agency

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with 231, Social Security Benefits Agency with 217, Employment Service with 188, Highways Agency with 187 and Insolvency Service with 109. There were 32 agencies with fewer than this number but more than 15, with the remaining 60 agencies having between 0 and 15 questions.

However, these figures reflect the size of the agencies rather than saliency of the activity. Adjusting the measure based on Written Questions to take account of the size of the agency removes this distortion. In aggregate, the expenditure on running costs of all agencies was £10,991m with 0.3 questions per £m in 1995/96. This contrasts with non-agencified parts of government with running costs of £3,761m and 11 questions per £m. For central government overall, including both agencified and non-agencified parts, the figure was 3 questions per £m on expenditure of £14,752m (see Table 5.1, Chapter 5). These figures suggest that non-agencified parts were almost 37 times more salient. For individual agencies, the mean figure was 1.3 questions per £m of running costs with a lower median of 0.9 questions per £m. No agency had more than 8 questions per £m of running cost. The top three were the Veterinary Medicines Directorate with 8 questions per £m, National Weights and Measures Laboratory with 7.7 per £m and Wilton Park with 6.5 per £m. 54 agencies had less than 1 per £m. The Benefits Agency was ranked 93rd with a figure of 0.8 questions per £m (Appendix 6). Even the most salient agency had a level which was only three quarters of the figure of 11 questions per £m for the activities in the non-agencified part of government.

Conclusion

The public interest model develops the predominant official justification in a form that is amenable to empirical evaluation. The public interest model suggests that the agency form is beneficial for handling executive rather than policy activity and gives reasons why there was a change towards increased use of the agency form in the 1980s and 1990s. However, evaluating the model's first two hypotheses suggests only limited empirical support. In terms of the first hypothesis, the contradictions and gaps in the official account are inconsistent with the model and require further explanation. The central state did not appear to be acting as a

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unified body pursuing the public interest raising the questions: why did parts of central government seem to have such different views of the reform? Why were cases of nominal agencification lumped together with more substantial changes in descriptions of the reform by the Project Team?

The second hypothesis receives more empirical support. The survey of activities shows that most agencies predominantly handled activities that were routine. In contrast, nearly all sections of departments predominantly handled non-routine activity. The case of the Benefits Agency shows that the agency was a contract/transfer agency primarily handling routine executive activity in contrast to sections of the DSS Headquarters which handled non-routine policy activity. There were several trading agencies handling non-routine activities. But this finding is consistent with the use of bottom up, customer focused, market controls for these bodies. The public interest model suggests that these additional controls allow a more flexible method of influencing non-routine activities for this type of agency. Beyond these cases, there were some agencies handling non-routine activities, these were mostly small research or consultancy organisations. Taking political saliency as an indicator of routine activities produces even better support for the hypothesis. The activities handled by non-agencified parts of government produced 11 questions per £m of running costs. In contrast, the overall figure for total agency running costs was 0.3 questions per £m. For individual agencies, the mean figure was 1.3 questions per £m of running costs with a lower median of 0.9 questions per £m. No agency had more than 8 questions per £m of running cost.

The findings relating to the first two hypotheses of the public interest model suggest that it receives some support. However, further explanation of the inconsistencies, especially the conflicting accounts of the reform by official sources, is required. The public interest model has a third hypothesis, that the agency model should perform well in terms of economy, efficiency and effectiveness and perform better than alternative forms of organisation. The third hypothesis is evaluated in the next chapter.

Chapter 5: Evaluating the Public Interest Model's Interpretation of the Performance of Agencies

'We have been very careful to set targets and the objectives for the Chief Executives of the Agencies not just in terms of cost but in quality of service. I think that those goals of quality of service are being very widely achieved...One is seeing the results of that in the speed and accuracy of calculations of social security benefits'. Sir Robin Butler, Head of the Civil Service, giving evidence to the Treasury and Civil Service Committee (Treasury and Civil Service Committee 1993:53).

'Without an objective measure of the [Next Steps] changes, however, doubt about the effectiveness of the reform will inevitably remain.' (Trosa 1994:68).

The third hypothesis of the public interest model suggests that agencies should exhibit good performance in the delivery of public services and perform better than alternative forms of organisation. However, the above quote from Trosa's report on agencies (Trosa 1994) illustrates that little research on the performance of agencies has been conducted either by government or academics (Pollitt 1995, Talbot 1998). Examining the performance of all agencies on a few key indicators and exploring the case of the Benefits Agency helps evaluate the third hypothesis. Section One examines the economy of agencies. Section Two looks at their efficiency and effectiveness, evaluating whether the claims of Sir Robin Butler in the quote at the front of this chapter were justified. Section Three analyses evidence about the ways in which the agency model affected the performance of the Benefits Agency.

Section One: Economy

The public interest model suggests that agencies promote economy. This section looks at changes associated with use of agencies in terms of the levels of resource inputs for the bodies and central government as a whole. The authors of the Efficiency Unit report expected savings of at least 5 per cent of running costs,

the direct administrative costs of agencies. Changes in real terms central government running costs and total spending, this latter total including running costs, are summarised in Table 5.1. There was a real terms rise in administrative expenditure of £1,183m, or 9 per cent, between 1988-89 and 1997-98, and, in this respect, the agency model was associated with a deterioration in economy. However, after the main burst of agency creation ended in 1996, as described in Table 2.1 in Chapter Two, there was a fall of £706m or 4.8 per cent from 1995-96 to 1997-98. But the level at the end of the period was still higher than at the start of the reform.

Table 5.1: Economy of UK Central Government 1988-98: Administrative Costs and Total Costs Constant 1996-97 Prices (£m)

	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Admin Costs	12,863	12,817	13,295	14,250	14,378	15,117	15,069	14,752	14,319	14,046
Total Costs	164,700	168,000	171,600	179,400	189,500	196,300	199,300	200,800	198,700	195,800

Source: Chancellor of the Exchequer 1994: 41-42, 1998:57 and 64 (adjusted to 1996-97 prices). Administration costs are for civil departments, MoD figures are excluded because they included armed forces personnel costs and were subject to several definitional changes during the period.

In terms of staff inputs, the agency model was associated with improvements in economy. In crude aggregate terms, the total number of civil servants fell from 580,000 to 463,000 from 1988 to 1998, a fall of 117,000 or 20 per cent over the ten years, as shown in Table 2.1 in Chapter Two. However, there were similar proportionate falls in staffing in the same length of time prior to the reform. The 1988 Efficiency Unit Report commented that civil service staffing was reduced by 15 per cent between 1979 and 1984 and by 20 per cent between 1979 and 1987 (Efficiency Unit 1988:23). But it was perhaps more of an achievement to get continued reductions in the 1990s compared to the 1980s because in the 1990s the reductions were from a lower base, all time civil service numbers having peaked in 1976 at 763,000 (Cabinet Office 2000:7). However,

these changes refer only to staffing, overall expenditure presents a different picture of changes in economy.

In aggregate spending terms, looking at not only running costs but also expenditure on programmes, the economy of central government did not improve after the start of the agency reform as shown in Table 5.1. In the ten years after the reform, expenditure in real terms rose from £164,700m to £195,800m, a rise of £31,100m or 18.8 per cent. In the first six years after the reform began, between 1988-89 and 1994-95, the level of central government total expenditure within the control total, a measure covering nearly all central spending, rose in real terms from £164,700m to £199,300m. This change was a rise of £34,600m or 21 per cent (Chancellor of the Exchequer 1998:57). In the six years prior to the start of the reform, real terms total central government expenditure rose by 9,800m or 6 per cent in six years (1982-83 to 1987-88) (Chancellor of the Exchequer 1998:57), so the agency model was associated with even larger rises than before agency creation.

However after this initial period of growth in the number of agencies, as for administrative costs, there were improvements in economy with a fall of £5000m or 2.5 per cent between 1995-96 and 1997-98. Contrasting the ten years after the initiation of the reform with the same length of time before the reform began indicates the differences between the periods. In the ten years 1978/79 to 1988-89, central government spending under the planning total, which is broadly similar to the definitions used in later total cost figures shown in Table 5.1, rose in real terms by 13 per cent (Chancellor of the Exchequer 1987:34). This increase is lower than the increase after the agency reform, but indicates that there was substantial growth in overall spending by central government both before and after the start of the reform.

However, the overall figures outlined above include all parts of central government, not just agencies. Although agencies were an increasingly important part of central government over the period an examination of their performance is necessary to evaluate their contribution to these overall changes. The agency reform process incurred costs in evaluating potential agency candidates,

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designating agencies and setting them up. It is difficult to put an exact figure on this expenditure because the activities were not accounted for separately from other staff duties and many people were involved in the process in different capacities. However the costs in establishing the Benefits Agency in the DSS was 'considerable' according to interviewees, running to several million pounds (I14 Senior Official, Department of Social Security; I15 Senior Official, Benefits Agency). A better assessment can be made of costs of running the agency system. These costs include running the regulatory system including performance measurement systems and producing annual reports. No indication of these costs was sought by the Cabinet Office or Treasury (I1 Senior Official, Cabinet Office; I2 Senior Official, Cabinet Office). However, NAO estimated that the costs of performance systems for the Benefits Agency. The cost of the systems, in excess of the arrangements that would be needed for purely internal processes, was calculated as approximately £7m each year for the Agency, or 0.3 per cent of its total administrative spending (NAO 1998b:20). If this agency's costs are taken to indicate proportionate costs of running systems for other agencies then, based on total administrative spending of these bodies, the total cost of these systems in all 138 agencies was around £40m per year in 1998 (Appendix 7). However this figure is probably an underestimate of the full cost because the Benefits Agency exhibited enormous economies of scale, having a large administration budget by comparison with other agencies. If the costs were, on average for each agency, about one tenth of the costs of the BA system, which seems a reasonable assumption given the fixed costs of setting up and running systems, then the total costs of running the performance systems was almost £100m per year. However, this figure was only 0.7 per cent of total central government administrative costs, as shown in Table 5.1.

The changes in agencies themselves illustrate the contribution of the group to the figures for total central government economy that are shown in Table 5.1. The figures presented here are based on an analysis of 72 agencies that were broadly stable in their organisation over the three years from financial year 1995/6 to 1997/8. The choice of 1995 as a start date marks the point where two thirds of the agencies had been created which constituted the mature phase of agency reform. The choice of a three year period is long enough to make statements about a trend

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rather than a single unusual year because the two way comparison between the start and end year can be checked against the middle year of the period to see if they are wildly different. At the same time, it is not too long a period to prevent the identification of a substantial set of agencies to track over time. Of the 102 agencies that existed in at the start of 1995, 30 were reorganised, privatised or abolished in the period to 1998, leaving 72 bodies for examination. An earlier start date would reduce the number of identifiable stable agencies below this figure.

In aggregate real terms spending, the 72 agencies cost £9,127m in 1995-96 and £9,079m in 1997-98, a fall of £417.8m, or 4.6 per cent, over the period. In these crude aggregate terms, the agency initiative did improve the economy of these activities by nearly as much as the 5 per cent suggested in the 1988 Efficiency Unit Report. All the different types of agency exhibited falls in aggregate administrative expenditure between 1995/96 and 1997/98. However the falls were larger for the contract/transfer type, which fell by 5.1 per cent, and the delivery type, which fell by 4.3 per cent, than for the trading type which fell by just 1 per cent (Appendix 7). However, all types of agency were associated with lower improvements in economy than central government as a whole in the period. Overall total central government running costs, a figure which includes the agencies' costs and those of departments and other central government bodies, fell from, £33,554m to £31,558m, a fall of £1,996m or 5.9 per cent over the same period, as shown in Table 5.1.

The picture was more complex in terms of changes at the level of individual agencies in the same period. The spread of changes is shown in the boxplot in Appendix 7. The mean score for all agencies was a small running cost rise of 1.7 per cent. This increase reflected modest rises in several, mostly small, agencies and a few large increases, the largest being the Forensic Science Service which increased its budget by 75.5 per cent, mainly because of increases in work commissioned by police forces (Cabinet Office 1999:176). However, the median change in budget was a fall of 4.4 per cent, shown by the bold line in the box plot in Appendix 7. The largest fall was in the Insolvency Service which fell by 25 per cent. Overall, 57 per cent of agencies exhibited budget falls and, in this sense,

use of the agency model was associated with improvements in economy in the majority of cases.

There was variation in change in economy between individual agencies of different types, as summarised in Appendix 8. The mean changes were a fall of 2.5 per cent for the contract/transfer type, a fall of 2 per cent in delivery type, but a rise of 4.8 per cent for the trading type and 12 per cent for the trading/contract/transfer. In terms of median scores, the delivery type had the biggest fall of 6.7 per cent, followed by a fall of 4.1 per cent for the contract/transfer type and a rise of 8.2 per cent for the trading type and 12 per cent for the trading/contract transfer type. There was a substantial difference between the economy of those agencies that were trading and those that were not. The mean score of non-trading delivery and contract/transfer types was a fall of 2.3 per cent and a median score of a fall of 5.3 per cent. In contrast, the trading types showed a mean increase of 4.8 per cent and a median increase of 8.2 per cent.

Examining the relationship between trading and non-trading types and rise or fall in budget shows a weak association between trading and budget level rises, with a greater proportion of trading types exhibiting budget rises than non-trading agencies, as shown in Table 5.2. Statistical analysis of the independence of the variables using the chi square test only weakly confirms a lack of independence between differences in trading status and the direction of budget change. At a confidence level of 0.242 the Chi-square result of 1.37 with 1 degree of freedom is only just within the critical region. However, this finding for individual trading agencies and the lower budget fall for the trading type in aggregate terms, points to lower economy for this type than for other types.

Table 5.2 Non-trading and Trading Agency Types and Direction of Budget Change 1995/6 to 1997/8: Number of Agencies (with Percentage of Type)

	Budget Fall	Budget Rise	Total
Non-trading	36 (60 per cent)	24 (40 per cent)	60 (100 per cent)
Trading	5 (42 per cent)	7 (58 per cent)	12 (100 per cent)
Total	41 (57 per cent)	31 (43 per cent)	72 (100 per cent)

Source: Appendix 9

The case of the Benefits Agency was an example of a contract/transfer agency. Real terms administrative costs fell over the period 1995/96 to 1997/98 by £114.5m or 4.4 per cent. However, the picture for the entire life of the agency has been more mixed. Administrative costs in real terms (1996/97 prices) rose from £2,126m in 1991/92, in the first year of agency working, to peak at £2,787m in 1996/97 before falling back to £2480m in 1998/99, an increase of 17 per cent over the whole period. Staffing showed a similar pattern, rising from 68000 in 1991/92 to peak at 77435 in 1996/97 before falling back to 71376 in 1998/99, a rise of 5 per cent over the whole period. The 1996/7 and subsequent years' figures included several thousand staff who were transferred from the Employment Service to the BA to handle work associated with the JSA. But even after adjusting for the effects of this transfer, crude budget and staff numbers increased, the main exception being expenditure on capital which fell year on year from 6-9 per cent of running costs in the early 1990s to between 0.5 and 1 per cent in the late 1990s (BA 1993;1994;1995a;1996;1997;1998;1999). The Benefits Agency did not improve economy over the life of the Agency to 1998, although the period of expanding running costs in the first half of the 1990s was mostly cancelled out by the period of retrenchment from 1996/97. The total expenditure of the Agency was dominated by the transfer budget containing expenditure on the programme of social security welfare payments. These payments dwarfed the expenditure on running costs which formed only around 3 per cent of total spending over the period. Total spending in real terms 1996/97 prices rose over the seven years from £70,699m in 1991/92 to £81,200m in 1997/98, a rise of £10,600m or 15 per cent. On this broader indicator of

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economy, the Agency did not perform well, although the rate of growth slowed down in the mid 1990s and was reversed at the end of the period.

Section Two: Efficiency and Effectiveness

The public interest model suggests that agencies, when used appropriately, should operate in an efficient and effective way in their use of resources to achieve the stated aims of the organisation. The aims of agencies were spelled out in Framework Documents, Annual Reports of agencies and departments, Business Plans and Corporate Plans. Effectiveness refers to how far the agencies own aims were met and the effect of agencies on the achievement of other public organisations' goals. A distinction is often made between outputs and outcomes, with outcomes being the final and wider effects of activities in society and generally more difficult to measure (Smith 1996:1-19). Efficiency is the ratio of inputs to outputs and outcomes and is a relationship between economy and effectiveness. There is a chronic lack of governmental or academic information about efficiency and effectiveness (Trosa 1994;Pollitt 1995; Talbot 1998). The approach adopted here uses the available evidence to build a composite picture of the performance of agencies from different perspectives on a few key dimensions. This picture is then supplemented by exploring the case of the Benefits Agency in a more 'holistic' way in greater depth using evidence from a wider range of sources including interview material.

Some broad guidance on effectiveness in terms of whether spending was furthering the aims of the organisation and efficiency in terms of whether inputs were contributing to outputs is provided by the National Audit Office's work in financial regularity audit. The Comptroller and Auditor General, the head of the National Audit Office, audited the revenue and expenditure of central government including all agencies and checked whether monies provided by Parliament were used only for the purposes intended and with due regard for propriety in expenditure. The audits checked whether the financial statements of agencies were free from material misstatement, whether caused by fraud, error or some other irregularity. Where these problems were seen as significant or 'material' the account was qualified by the auditor, or, if the problem was less

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severe, the auditor produced a report referring to the problem on the account. The audit reports and accounts were given to Parliament. The results for the audit of all executive agencies' accounts compared to all UK central government accounts from 1993-99 are given in Table 5.3 below.

Table 5.3 Agency Accounts Audited, Accounts with Problems, Divided into Agency Accounts Qualified or Report Attached, and Central Government Accounts Audited and Accounts with Problems 1993-94 to 1998-99

	1993-99	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
Agency Accounts Audited	78	66	72	78	76	81	96
Agency Accounts With Problems (Split into Accounts Qualified or Report Attached)	5 — 2 / 3	6 — 2 / 4	7 — 2 / 5	5 — 1 / 4	2 — 1 / 1	8 — 2 / 6	2 — 2 / 0
Agency Accounts with Problems as Percent of All Agencies)	6 per cent	9 per cent	10 per cent	6 per cent	3 per cent	10 per cent	2 per cent
Central Govt. Accounts Audited	491	446	514	516	465	473	530
Central Govt. Accounts with Problems, Problems as Percent of All Accounts	36 (7 per cent)	40 (9 per cent)	37 (7 per cent)	34 (7 per cent)	46 (9 per cent)	33 (7 per cent)	26 (5 per cent)

Source: Compiled from NAO 1996c,1997,1998d,1999b,2000b

Before 1993, NAO did not produce aggregate figures for the audit of agencies, but the figures in Table 5.3 relate to the majority of the period under investigation and for the period when the greatest number of agencies were operating. Each year one or two agency accounts were qualified, with a further number having reports attached to the audit. On average, 6 per cent of agency

accounts were either qualified or had a report attached to them. These levels are slightly lower than the 7 per cent average for all central government accounts. On this measure of performance, agencies appear broadly similar with other parts of central government. However, because this information focuses on financial control it provides only a partial perspective.

A supplementary perspective on the performance of agencies is offered by the 'benchmark' scores for agencies collected for the 'Business Excellence Model' (BEM) run by the Civil Service College (Minister for the Cabinet Office 1999: 9). The BEM was developed as a framework for assessing the performance of organisations across a range of activities in an attempt to improve performance. It was developed by the European Foundation for Quality management and 200 companies across Europe and was widely used in both the public and private sectors. There were nine criteria for assessment, a mixture of an evaluation of procedures and outcomes. The model measures procedural performance against leadership, policy and strategy, people management, resources and processes. There were outcome focused measures of people satisfaction, customer satisfaction, impact on society and business results. The BEM process produced a scored profile for organisations against each of the criteria.

A pilot BEM scheme in 1996 involved 30 agencies, about a third of the total. These agencies broadly reflected the different types of agencies identified in earlier chapters. They included the Public Record Office (delivery), Driving Standards Agency (trading), Benefits Agency (contract/transfer) and the Buying Agency (trading contract/transfer). However data on these bodies was held by the Civil Service College on a confidential basis. Individual agencies were sensitive about the use of the scores and they were not publicly available (Samuels 1997). But aggregate scores for agencies as a group were available. If private sector performance is seen as a benchmark of satisfactory performance then the BEM scores point to mixed results. Agencies lagged behind, especially leadership, impact on society and people satisfaction which scored just over half the private sector score (Samuels 1997:4). However, agencies scored higher than the private sector on customer satisfaction.

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Agencies had a wide variety of 'customers', in terms of people benefiting directly or indirectly from agencies' activities as stated in annual reports and other documents including the annual Next Steps reviews. Taking the 1998 review as an example, customer groups discussed include private clients including firms, charities other organisations and individuals, taxpayers, elected representatives, other government bodies and ministers (Minister for the Cabinet Office 1999). Paying customers were a particularly important group for trading agencies but the primary customer group for all agencies, according to the model outlined in Chapter One, was departmental ministers. Ministerial satisfaction with agencies can be assessed by surveying the performance of agencies against ministerial targets for the same set of 72 agencies analysed in Section One, for the period 1995-96 to 1997-98. The limitations of performance measures, as reported in Chapter Three, requires that this analysis is supplemented by analysing the responsible ministers' comments in the Next Steps annual reviews of performance to pick up on levels of satisfaction not reported in targets.

The agencies are classified in three bands according to levels of satisfaction; the results are summarised in Table 5.4. Firstly, satisfactory or above, indicating achievement of most or all targets and anything but severe adverse ministerial comment. Secondly, some cause for concern, reflecting achievement of about half of targets and anything but severe adverse ministerial comment. Thirdly serious cause for concern, based on severe non-achievement of targets and/or severe adverse ministerial comment. It was not possible clearly to separate ministerial comment beyond the dichotomy between severe adverse comment and any other comment. A large majority of agencies were in the first category. But 6 agencies, or 12 per cent, exhibited cause for concern or serious cause for concern, with 3 agencies or 4 per cent, in the latter category. Unlike the case of economy discussed above, cross-tabulation of these findings with agency type does not reveal a pattern linking variation in performance with type of agency or use of the agency for different types of activity. According to the third hypothesis of the public interest model agency performance should have been worse for inappropriate use of the model on 'policy' work, especially for agencies that were not trading bodies and did not have a market oriented system

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of control to supplement the regulatory control systems. However, there did not appear to be such a relationship in terms of performance. Some of the worst performers were bodies which handled relatively routine activity. For example the Child Support Agency's performance is shown in Table 5.4, and its role in handling routine activity is shown in Appendix 4.

Table 5.4 Agencies and Levels of Ministerial Satisfaction: Number of Agencies, with Per Cent, and Examples

	Number (with per cent)	Examples
Satisfactory or Above	63 (88 per cent)	Information Technology Services Agency
Cause for Concern	6 (8 per cent)	HM Prison Service, Training and Employment Agency, Valuation Office, Public Trust Office, Intervention Board, Northern Ireland Child Support Agency
Serious Cause for Concern	3 (4 per cent)	Child Support Agency, Fire Service College, Student Awards Agency for Scotland
Total	72 (100 per cent)	

Source: Analysis of data from annual reviews of agencies as cited in Appendix 1

Taking an example from each category illustrates the issues of performance in each category. Firstly, the satisfactory or above category is illustrated by the Information Technology Services Agency (ITSA), in the Department of Social Security. In terms of effectiveness, there was an overall percentage performance and quality measure relating to delivering a level of service to customers within budget, on time and according to contract. The target was raised and met in each of the years from 1995/96 to 1997/98. There was a percentage efficiency improvement target and target relating to staying in

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approved budget in each of the years which were also met. There were also some milestone targets, mainly relating to the delivery of IT programmes, which differed from year to year and were met by the agency (ITSA 1996;1997;1998). Over the three years, running costs fell by 17 per cent in real terms, which, when combined with achievement of targets, suggests efficiency improvements. Whilst the low number of targets and their limited scope means they give only a fragmentary view of performance, statements by ministers in the Annual Reviews were supportive. In 1997, the Secretary of Sate for Social Security commented that the agency was 'demonstrating year on year performance improvements in efficiency and quality of service delivered to its customers' (Chancellor of the Duchy of Lancaster 1997:193).

Secondly, HM Prison Service Agency was in the 'some cause for concern' category. In the period 1995/96 to 1997/98 the Agency achieved about half of its targets, the figures for each year were in 1995/96 4 of 8 targets, 1996/97 6 of 11 targets and 1997/98 8 of 10 targets (Minister for the Cabinet Office 2000:180). In terms of crude efficiency, cost per prisoner place was broadly constant at between £23,940 and £24,271 over the period, below the target level of £24,615 (Prison Service 1998:7). Despite these shortcomings, the comments by ministers in the annual review were not very critical (Minister of the Cabinet Office 1998), and the Chief Executive, Richard Tilt, was able to comment in the 1996/97 Report that 'I am very pleased to be able to report that we achieved the majority of our targets. Those targets we missed we missed narrowly' (Prison Service 1997:4).

Thirdly, the serious cause concern category included the Child Support Agency. The Agency had a mixed record in the achievement of targets. Although it achieved almost three quarters over the period these were distributed unevenly so that only 5 out of 10 were met in 1995/6, rising to 6 out of 8 in 1996/7 and 8 out of 8 in 1997/8. The targets by themselves did reveal the full extent of ministerial dissatisfaction with performance. The agency budget rose by 21 per cent of the three year period and along with public criticisms this lead to criticism from the Secretary of State, commenting in 1998 that 'many challenges still face the Agency' (Minister of the Cabinet Office 1998:192).

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However, ministerial satisfaction gives only a partial indication of efficiency and effectiveness as broader evidence about the three agencies reveals. A National Audit Office value for money study looking at economy, efficiency and effectiveness in ITSA found substantial uncertainty about performance. This uncertainty arose in part because of major changes to the business. ITSA outsourced to private firms many functions relating to day to day provision of computing services to enable them to concentrate on the tasks of providing the department with a strategy for information technology; acting as an agent for DSS customers trying to negotiate with private sector suppliers; and supplying other products and services, ranging from software development through to the support of customers' systems (NAO 1996b: 1-3). Evaluating the rationale and the effects of this major outsourcing project was largely beyond the scope of the performance measures. NAO found that the Agency did look likely to get significant cost savings from the project and had followed appropriate procedures, although the long term savings and efficiency improvements were less clear (NAO 1996b:1-2). Whilst this finding does not demonstrate poor performance it suggests that an analysis over a longer period than three years is needed to evaluate the agency more fully.

The reservations expressed by ministers about the performance of HM Prison Service were partly reflected in broader evidence. In 1995, there was a major dispute between the Chief Executive, Derek Lewis and the Secretary of State, Michael Howard over responsibility for prisoner escapes (Barker 1998). This incident made the Agency the subject of serious cause for concern at that time and raised questions about effectiveness. However, overall performance over the entire period was better. The Home Affairs Committee, whilst pointing out problems in performance, sought to redress the negative publicity about the Agency flowing from the Lewis affair, praising the level of service delivery in a report. These findings were quoted by the Agency as independent evidence that the service was getting better, for example in reducing escapes, improving drug testing and achieving better discipline (Prison Service 1997:15).

The severe problems of the Child Support Agency were reflected in broader evidence. The Agency was subject to critical reports including five reports by the Social Security Committee, two special reports by the Parliamentary Commissioner for Administration, two reports from the National Audit Office and a report from the Public Accounts Committee (Harlow 1999:164). There were a wide range of concerns about unfair treatment of clients, poor quality service and low levels of efficiency. For example, the Public Accounts Committee was concerned that in the running cost of the agency in the mid 1990s of £224m exceeded the money collected £206m in payments by the body, and the low rate of clearing claims, with just over half cleared within 26 weeks (Harlow 1999:169). These problems of poor performance went well beyond those revealed in performance indicators and statements of performance given by ministers.

A longer time frame and broader evidence is used in the case study of the Benefits Agency. The Agency's mission was to 'support the Government in establishing a modern welfare state...by helping to create and deliver an active and modern social security service. The service will encourage independence and pay the right money to the right person at the right tine, all the time' (BA 1999:5). Effectiveness is judged in terms of these aims for the range of benefits the Agency was involved in delivering and the effectiveness of other organisations that relied on the Agency to help them with their operations. The Agency was in the satisfactory or above category in terms of ministerial satisfaction as summarised in Table 5.4. Since its foundation in 1991 the BA achieved over 70 per cent of the Secretary of States targets in 8 of the 9 years (NAO 1998b:1). The performance each year is summarised in Table 5.5 below. The Agency had internal management targets to supplement Secretary of State's targets and achieved over 80 per cent of these targets in 8 out of 9 years. For example, the agency achieved 94 of the 109 targets set in 1997-8 (NAO 1998b:1). Ministers were generally upbeat about the Agency, praising achievements. For example, in 1998 the then Secretary of State, Harriet Harmon, praised the Agency's 'efforts to maintain continuing high standards of customer service' (Chancellor of the Duchy of Lancaster 1998:192).

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Table 5.5 Benefits Agency: Secretary of State's Targets: Targets Achieved/Targets Set for Financial Years 1991/92 to 1998/99

Targets Achieved/ Set by Year							
1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
16/20	18/23	19/26	16/22	19/22	16/22	8/15	5/7

Source: Benefits Agency (1992,1993,1994,1995a,1996,1997,1998,1999a)

As was shown in Chapter Three, not all of the Agency's activities were covered by performance targets. However, performance under the Citizen's Charter supplements the analysis of the Agency's achievements. The Charter Standards were incorporated in a revamp of the Agency's own customer charter in 1993 (BA 1994:7). Overall, performance was mixed. In the mid 1990s performance in the social fund ranged from 68.3 per cent of the target for funeral payments within 12 days to 97.9 of the target for crisis loans same day. In Income Support only 56 per cent were made within the 5 days standard (BA 1999a). Many levels of performance were around 80 per cent of the target standards. Although the Charter standards did not cover all areas of the Agency's activities these failures point to mixed performance with substantial failure to meet standards in some areas (NAO 1998b:44).

The broader effectiveness of the Agency was reflected in the National Audit Office's value for money studies about the agency's work. One major failure of efficiency and effectiveness was the failure to inform the public of reduced pension rights for widows and widowers under the State Earning Related Pension Scheme. The Department and the Agency failed to pass on changes made to the pension in the 1986 Social Security Act to those affected in leaflets and other information. The failure began before the Agency was created but the size of the problem was not discovered until the late 1990s and the problem grew throughout the period. In early 2000 it was estimated that the cost of compensating those affected and putting things right would be at least £2,500m, and probably considerably more (NAO 2000:6).

There was evidence of considerable ineffectiveness in the use of the transfer component of the Agency's budget, which formed around 97 per cent of the total budget. External reviews pointed to high levels of fraud and error in these payments. The Comptroller and Auditor General qualified his opinion on the account for the tenth successive year in 1997-98, because of fraud and errors in benefit delivery. In 1997-98 these problems accounted for expenditure of £1530m on Income Support and income based Jobseeker's Allowance, £184m on child benefit, fraudulent encashment of orderbooks and girochecks amounting to £19m. In total these problems constituted 7 per cent of total spending on the account (Public Accounts Committee 2000:Secs.1-3). There was further ineffectiveness in the lack of take up of benefit. The aim of the Agency was stated as paying the right benefit to the right people at the right time. However, in 1996 the DSS estimated that only 76 to 82 per cent of those entitled to receive Income Support obtained the benefit, the figure for Family Credit was even lower at 70 per cent (NAO 1998c:25). The Chief Executive, Peter Mathison, acknowledged that the agency did not have an active national programme to boost the take-up of benefit (Social Security Committee 1998:157 and 158). This situation led to a substantial number of people who should have been receiving benefit not getting the welfare services to which they were entitled. However, some interviewees commented that ministers in the early and mid 1990s did not prioritise take up as a key aim of the organisation (I13 Senior Official, Benefits Agency). The lack of take up in part reflected a reprioritisation of Agency's aims from those stated in the Framework Document rather than simply ineffective delivery.

The efficiency of the Agency is revealed by comparing the outputs of the agency relative to the inputs. The Agency experienced an overall increase in its own resources over the period but at the same time the workload of the agency rose substantially. Total expenditure, including transfers, fluctuated with economic cycles, reflecting that total economy was in large part linked to 'demand' from those claiming benefit according to the eligibility criteria of social security legislation. The agency had an internal measure of efficiency based on the change in the Agency's work output per unit of staff. On this system, the agency improved efficiency by 12 per cent between the start of its

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life in 1991-92 and 1995-6. However the index did not cover much of the work done in the central benefit directorates and was withdrawn by the Agency (NAO 1998b:32). However a crude index of agency spending per unit of workload can be constructed based on Social Fund Crisis loans. This workload figure was continuously available throughout the period, most other benefits changed, and reflected changes in wider workloads related to economic cycles. The index of real term budget per case fell throughout the 1990s, except in 1998, and ended up in the late 1990s about 20 per cent lower than in the early 1990s. The increase in resources consumed by the agency did not keep pace with the workload increases, demonstrating improved efficiency.

There were few studies of efficiency in the Agency. However, there was some evidence of better use of resources which supports interview findings that Agency officials felt the Agency was making better use of staff and equipment (I4 Official, Benefits Agency; I13 Senior Official, Benefits Agency). For example, the agency achieved significant cost savings by market testing switchboard operator systems, negotiating with telephone service providers, controlling private use of telephones by staff and checking bills using improved inventories (NAO 1996:5-6). Whilst telephones were just one area of the Agency's activities there is no reason to think that this experience was untypical of improvements in other areas. Despite this evidence of better use of resources the substantial areas of ineffective working, including inaccuracy of payments, means that there was substantial inefficiency in attempting to achieve many of the key aims of the organisation.

Ineffectiveness and inefficiency was not confined to the Agency's own activities but was also evident in the working of other organisations which relied on the Benefits Agency's assistance to conduct their business. The Benefits Agency administered two benefits, Income Support and Jobseeker's Allowance which had implications for a third benefit, Housing Benefit, mainly administered by local authorities. This was a sizeable programme costing about £11,100m per year in 1996-97 or 12 per cent of the total £90,000m spend on social security (NAO 1999). The Agency passed information to local authorities about claimants to assist them in the administration of Housing Benefit. Because about 66 per
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cent of people claiming Housing Benefit were also on Income Support or Jobseeker's Allowance there was substantial joint working (NAO 1997:18). If a claimant was awarded Income Support or Jobseeker's Allowance by the Agency then the local authority had to assume that they had no income or capital, which affected the award of Housing Benefit (Benefit Fraud Inspectorate 1999d: Sec 8.1). The Agency's problems with fraud and error on these benefits had a further externality effect in terms of fraud and error on Housing Benefit. In the mid 1990s, about 74 per cent of fraudulent claims on Housing Benefit were also fraudulent claims for Income Support (NAO 1997:21). Overall, about 7 per cent of the Housing Benefit budget was paid out in fraud and error at this time (NAO 1997:1).

Section Three: The Effect of the Agency Model on Performance

To evaluate the third hypothesis of the public interest model it is necessary not only to consider performance of the agencies but also the impact of the agency model on this performance. Tracing these effects is difficult because the consequences of the model are difficult to separate from other factors such as the environment in which the agencies were working. However the case study of the Benefits Agency allows some indication of these effects. It is not possible to explore the counter factual of how the activities would have been handled if the old organisational structure had been maintained or alternatives adopted. But comparing the performance of activities before and after the creation of the agency helps assess the effects of agency working relative to the traditional structure. Secondly, the effects of different aspects of the model on the behaviour of people in the Agency and Department, with their consequences for performance, can be assessed.

Comparing the cost of activities before and after the creation of the Agency is difficult because it is hard to identify separate budget figures for the relevant parts of the old Department of Social Security. However, in the three years before the creation of the Agency, the total DSS running costs, which were predominantly the costs of the organisation that became the Agency, rose from £2500m to £2684m in real terms. This change was an increase of £184m or 7.4

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per cent (Chancellor of the Exchequer 1994:41, adjusted to 1996/97 prices). In the same period after the Agency was set up, the organisation's running costs rose from £2124.6m to £2728.8m, a rise of 604.2m or 28 per cent. By 1998, the Agency was spending £355m more than in 1991, a rise of 16.7 per cent over the period, although the costs fell back in the period from 1996/97, so the Agency performed relatively badly compared to the previous structure (BA 1999). A similar picture was evident in terms of total spending on the programme. In the pre-agency period the analogous spending figure was total social security spending. In the seven years before agency creation, the level rose in real terms 1996/97 prices £9,000m from £61,600m in 1984/85 to £70,600m in 1991/92, a rise of 14.6 per cent (Chancellor of the Exchequer 1998:57). On this measure, economy was broadly similar to the post-agency rise of 15 per cent over the seven years of the Agency's working.

Comparing effectiveness of the Agency with the pre-agency organisation is difficult because the benefits delivered in the 1980s differed from those in the 1990s. However, there were some indicators of performance used by the DSS which were analogous to indicators in the 1990s. Effectiveness can be compared by looking at levels of fraud and error, or inaccuracy, of a major benefit, Supplementary Benefit and its replacement (after April 1988) Income Support. The findings are summarised in Table 5.6. In the 1980s there was significant error in payments. In the five year period 1984-5 to 1988-9, error rates for Income Support and Supplementary Benefit ranged between 9.6 and 11.6 with an average of 10.2.

The Agency was associated with deterioration in performance. In the 1990s, Income Support inaccuracy was double the level of the 1980s, ranging between 18.3 and 21.9 with an average of 20.1 per cent. Although the NAO estimated that the 1980s figures for errors underestimated the true level by 30-40 per cent and BA tightened up assessment procedures in the 1990s, performance did appear to have deteriorated. The deterioration in Family Credit was similar, but this benefit was not measured before 1988-9. In 1996 the DSS and the BA estimated that fraud and error on income support amounted to £1770m each year, equivalent to 11 per cent of total expenditure on the benefit (NAO 1998b:23).
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The performance in terms of take up of benefit also illustrates a lack of improvement under agency working. In the 1980s 89 per cent of those entitled to receive Supplementary Benefit received it (NAO 1988:19). In 1996 the DSS estimated that only 76 to 82 per cent of those entitled to receive Income Support obtained the benefit (NAO 1998b:25). Even taking into account improvements in measurement and changes in benefits, the take up rate was not improved under the agency regime.

Table 5.6 Percentage of Incorrect Payments Before and After Agency Creation

Benefit	1984-5 to 1988-9 average	1988-9	1995-6 to 1997-8 average	1997-8
1980s:IS/Suppleme ntary Benefit 1990s: Income Support	10.2	9.1	20.1	19.3
1980s: Family Credit 1990s: Family Credit	-	8.6	18.3	17.3

Source: Carter, Klein and Day 1992: 93 and BA 1995a;1996;1997;1998.

Comparing the satisfaction of customers before and after the creation of the agency gives a further indication of relative performance. There was some evidence of better customer satisfaction compared to the pre-agency period. Senior officials argued that there was an improvement in the standards of service that claimants received and improvements to decoration of offices and the 'feel' of the service in the early days of agency working (I10 Official, Benefits Agency; I13 Senior Official, Benefits Agency). A comparison of the 'quality' of customer service before and after agency creation illustrates this change. The pre-agency system suffered from poor quality service to claimants. An NAO

report on the quality of services to the public at local benefit offices was published in 1988. The Report highlighted serious dissatisfaction. A customer survey found that 25 per cent of claimants found the service poor with 75 per cent rating the standard fair or good (NAO 1988:1). By the mid 1990s the situation had improved. A BA survey of customer satisfaction ran in the period 1991/92 to 1996/97 and was published in each annual report. It found that between 83 to 86 per cent of customers regarded the service as satisfactory or better (BA 1999a). However, this measure of customer service gave a far from comprehensive assessment. Efforts to use surveys were abandoned in 1995-6 because of concerns about whether they really represented the experiences of customer groups (NAO 1998b:18-19).

The external systems of complaint handling provides another perspective on customer satisfaction. An indicator is the incidence of major failings by the organisation leading to complaints to the Parliamentary Commissioner for Administration (PCA). This perspective complements the findings about general customer satisfaction from the surveys. Both the pre-Agency system and the Agency were subject to the jurisdiction of the PCA. Before the creation of the Agency, there were 220 complaints and 75 investigations in 1988 (PCA 1989:26) and 223 complaints and 88 investigations in 1989 (PCA 1990:28) against the whole of the DSS, although the overwhelming majority these referred to work later transferred to the Agency. By the end of the 1990s there was a rise to 468 complaints in 1997/8 (PCA 1998: Figure 5) and 469 complaints in 1998/99 with 75 and 64 investigations in those years respectively (PCA 1999:Figure 5). The fall in investigations did not suggest a reduction in complaints worthy of investigation because these PCA introduced a system of settling cases informally by the Agency without investigation. These cases were running at 47 and 50 in 1997/8 and 1998/99 respectively. The complaints were about similar problems throughout the 1980s and 1990s, including delays and inaccurate payments (PCA: 1989;1990;1998;1999).

These results suggest that the Agency may have worsened rather than improved the occurrence of major failings on individual cases. In the late 1980s the Commissioner commented that 'For many years complaints about the

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administration of social security have loomed large in the Office's investigative workload' (PCA 1990:3). Almost a decade later the Ombudsman commented that 'complaints [against the Benefits Agency] accounted for the greatest number of complaints which the Ombudsman received against any single body (PCA 1999:3.4). Given the size of the Agency, the continued salience of complaints is unsurprising. The increase in complaints must be considered in the context of rising expectations of services and much better publicity about complaints processes in the later period (I15 Senior Official, Benefits Agency). However, even after making some adjustment for these factors the Agency was associated with continued failings on individual cases.

Comparing the pre-agency and agency working periods shows that the Agency was not a panacea. Long standing performance problems remained, and in some instances worsened, although there were improvements in some areas of customer satisfaction. However, in order to assess the third hypothesis of the public interest model more fully, the effects of the agency model on performance need to be assessed. As is described in Chapter Three, both the main features of the model were present in the Benefits Agency although they did not operate completely according to their principles. However, the agency model appears to have had a considerable effect on those working in the organisation and on the delivery of services. The first set of effects were related to organisational separation with freedom from ad hoc intervention and flexibilities, the second set related to the performance regime including the use of performance targets.

In terms of organisational separation, the Benefits Agency mostly handled executive tasks, separate from the Department mainly handling policy work. The Agency was able to develop its own corporate systems to focus on the job at hand. For example, a NAO examination of the management of telephones found that the Agency had been able to develop its own strategy for developing the use of the network which was leading to improvements (NAO 1996). After an initial period, the DSS HQ adjusted its activities to reduce staff as part of the senior management reviews taking place across the central state. The reviews were announced in a White Paper Taking Forward Continuity and Change (Prime Minister, Chancellor of the Exchequer and the Chancellor of the Duchy

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of Lancaster 1995: 9-14) and carried out in 1995 and 1996. The reduction in staff was, in part, a consequence of the removal of duplication of functions by departments and agencies and a change to more strategic control of agencies (I14 Senior Official, Department of Social Security).

However, the difficulties of separating policy and implementation contributed to performance problems. Some senior officials argued that Agency working elevated the status of people working in service delivery. Michael Bichard was the first head of the Benefits Agency. He argued that the big agencies, including the Benefits Agency, had been able to forge a partnership with their policy colleagues. The Framework Documents of the Agency gave it the right to be involved in policy and staff were more involved in giving feedback to the policy sections in the Department than previously. The BA had a seat on the Departmental Policy Board and was usually represented by the head of the Benefit Management Branch. Bichard suggested that the policy sections had, before the Agency, developed policy too remotely from operations and this resulted in a benefits system that was vulnerable to error and abuse. He suggested that frontline staff often had a better idea of the problems with the system than policy people (Bichard 1999:7-8).

However, Bichard went on to qualify his praise, stating that the views of people delivering services were still not taken sufficiently into account by those in policy making organisations (Bichard 1999:7-8). Even if the problems of feeding information from the delivery side to the policy side existed before the Agency, agency working did not appear to have improved the situation. Instead, it instituted an organisational divide between the two, leading to poor co-ordination between the BA and the HQ in the early 1990s (I13 Senior Official, Benefits Agency; I14 Senior Official, Department of Social Security). The Chief Executive, Peter Mathison, in response to criticism from the Social Security Committee about the level of performance, said 'We have identified where there are weaknesses in the system which may essentially be down to some detail of the policy design and we have identified some also where there are weaknesses around some of the rules and regulations' (Public Accounts Committee 1999: Q165).

Other staff in the Agency complained that the benefits were designed by the Department without sufficient reference to how they had to be administered (I13 Senior Official, Benefits Agency; I15 Senior Official Benefits Agency). This view was repeated by staff in non-policy development sections of the Department of Social Security. An interviewee commented that the Agency had not been able to overcome the long standing problem of 'Grade 5s in the Adelphi [the location of most DSS HQ policy development staff] spending their careers developing huge and complex rulebooks without much thought for the people who have to implement them' (I 11 Senior Official, Department of Social Security).

There were few changes to policy made in response to comments from the Agency, illustrating the communication problem. Neither the Agency nor Department could cite many cases where changes had been made. One case was alterations to legislation about mortgage compensation which allowed for payment of arrears. BA staff reported that levels of arrears were difficult to assess, leading to inaccuracies. They convinced DSS staff that legislation needed to be changed to make the payment system easier to administer. Within 12 months accuracy had improved by 1 per cent, saving £13m. But BA noted that this case was unusual (BA 1999b).

The State Earnings Related Pension debacle further illustrated the failings of separating implementation and policy. People claiming pensions were not advised of changes to eligibility. Whilst the mistake was originally made in 1986, before the Agency's creation, the organisational structure imposed by the Agency seemed to have worsened the problem. The handling of state pensions required co-ordinating Benefits Agency staff in Leeds, Newcastle and in local offices responsible for various parts of delivery and staff in the departmental headquarters in London responsible for supporting ministers in the development, maintenance and evaluation of pensions policy. The absence of end to end responsibility and good communication was a major factor in the failure according to NAO (2000:10). Once the Department was made aware of the error in 1995 the information was not passed to the Benefits Agency and incorporated

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in the information they gave to clients. Benefits Agency leaflets and staff continued to give wrong information until 1999. However, it should be noted that not all the poor communication was the result of the agency/department split, there was poor communication within the Agency itself (NAO 2000:26). In the end, Age Concern, a charity representing users of the services, rather than the Agency or DSS staff, brought the full implications of the error to the attention of ministers (NAO 2000:28).

The creation of the Agency as a separate corporate unit to focus on its own tasks made working with other organisations more difficult. One of the largest areas of joint-working involved the Agency co-operating with the Employment Service, to deliver Jobseeker's Allowance from 1996. This benefit was delivered from Jobcentres run by the Employment Service who paid the benefit as an agent of the Benefits Agency. Much of the administrative work behind payments remained with the Benefits Agency. In some senses the initiative was a success, in that most of the targets relating to Jobseekers' Allowance were met. However, comments by Patricia Hewitt, a member of the Social Security Committee, illustrated problems that arose for customer quality. She commented that Jobcentres sent out letters to clients based on information provided by the Benefits Agency but could not respond to queries, instead having to refer clients to the Benefits Agency for details which caused delay and inconvenience (Social Security Committee 1998:Q163). There was a lack of sharing of information resulting in the same information being requested twice, draining resources and inconveniencing claimants (BFI 1999b; Appendix B).

One reason for the problems was the differences between conditions of service in the two agencies. Staff in the Benefits Agency worked behind screens to protect them from clients whereas the Employment Service had a more open work environment. Under the so called 'Bichard Agreement', named after the first head of the Benefits Agency, staff in the Benefits Agency were given the right not to be transferred to different working conditions when undertaking Jobseeker's Allowance related work. This restriction limited flexibility in the use of staff, contributing to lack of effective communication (Social Security Committee 1998:176). One senior official commented 'Both agencies would

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have preferred Jobseeker's Allowance to go to one or another, rather than having to share it' (I13 Senior Official, Benefits Agency). This illustrated the 'logic' of the agency model which was for separate organisational operations and separate accounting for performance for each agency. However, more collaborative structures developed throughout the latter half of the 1990s to try and overcome these problems. They included joint meetings to address problems at several management levels, including the local level. The Benefits Agency Chief Executive, Peter Mathison and the Chief Executive of the Employment Service, Leigh Lewis, met with other members of their boards in a joint board on a quarterly basis and prepared action plans. There was a Joint Operations Team with members from both bodies to facilitate joint working (Social Security Committee 1998:Q163). The project was given as an example of how to facilitate inter agency working in a Cabinet Office report on joint working (PIU 2000:8.13-8.15). The overall success of Jobseeker's Allowance occurred despite the logic of the agency model, relying instead on the development of local agreements and co-ordinating structures that were departures from the pure model as outlined in Chapter One.

The second part of the agency model is the regulatory mechanisms, including performance targets. As described in Chapter Three, the Department kept some input controls over the Agency and was largely successful in keeping the organisation to the running cost budget allocated to it. The Agency's budget was set by the Secretary of State and operated within a gross running cost system of control. If the Agency felt that changes in workload affected its ability to carry out its tasks it had to seek approval to change its business plan and funding levels. The budgetary control mechanisms were not successful in improving economy as discussed in Section One of this chapter. However, the level of payments to claimants was largely determined by demand for services because of changes in economic conditions. The administrative budget similarly was affected by changes in workloads. For these reasons, the budgetary control mechanism can be seen as reasonably effective, especially the reductions in running cost budget which was achieved towards the end of the period through agreement between ministers and departmental officials and senior Agency staff. Agency staff commented on the toughness of the regime they faced in evidence

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to the Social Security Select Committee. The chief executive described the request for a 25 per cent reduction in costs in a four year period as feeling like 'somebody had three cups and a pea under one of them' (Social Security Committee 1998: Q142).

However, whilst administrative costs could be controlled, subject to the need to cover workload, the regulatory regime had less desirable effects on efficiency and effectiveness. The performance target system appeared to have had undesirable effects. Under the system, the internal management targets of the Agency were tied in to external reporting regimes, a proportion of the pay for people in the organisation including the Chief Executive was linked to achieving targets (I13 Senior Official, Benefits Agency). For example, in 1997-98 the Agency's management team monitored performance against all the 124 Secretary of State's and related internal management targets. On occasion this led to some misrepresentation of performance. The survey of customer satisfaction was in part dropped because of worries about whether it reflected performance or was an exercise in trying to produce a survey that met the target. The Chief Executive, in evidence to the Social Security Committee commented that 'I felt that maybe the national survey was designed to try to get a figure of 86 per cent [the target]' (Social Security Committee 1998: Q174).

The performance target system led managers to pay insufficient attention to the performance of activities that were not the main focus of targets. A major problem was the focus on clearance times hampering efforts to achieve accuracy, contributing to the poor performance in the latter area described in the previous section. An official commented 'We used to be under pressure to get all claims done within the clearance time [target] more than anything else' (I4 Official, Benefits Agency). Concern with budgetary targets led to less emphasis on redress when an error was made. The Parliamentary Commissioner for Administration noted that even when the Agency had been clearly at fault, it took pressure from him to persuade the Agency to give redress (IA10 Senior Official, Parliamentary Commissioner for Administration; PCA 1999:Sec 3.4).

The focus on targets for benefits hindered attempts to redesign systems within the Agency. Area managers were sometimes responsible for the achievement of 40 different targets (NAO 1998:38). The targets were separately related to different benefits, so that each benefit was still treated largely as a separate activity within the organisation. However, clients were often eligible for several benefits. The problem was noted by junior staff working in the local offices who commented 'Each of the systems we have is based on a different benefit rather than allowing us to deal with an individual claimant who might be looking at several relevant benefits' (I4 Official, Benefits Agency). This pattern of working led to inefficiency and a poorer quality of service for claimants than if more flexible client focused systems were adopted, but these would not have been compatible with the external target system for the Agency.

The difficulties of setting and using performance targets to control the Agency led to concern from ministers and civil servants in the Department. The Department became concerned about the extent to which the Agency was acting autonomously and the Department's inability to act as an 'intelligent customer' (I14 Senior Official, Department of Social Security). The Agency was developing its own systems which the Department came to view as giving it a separate capacity and putting its own 'spin' on performance (I13 Senior Official, Benefits Agency). Departmental civil servants and ministers felt that the target regime could not really be used to drive up performance, there was a lack of faith in the regime (I11 Senior Official, Department of Social Security). However, the blame for poor performance was assigned to the Department as well as to the Agency by outside bodies especially the parliamentary Public Accounts Committee (I13 Senior Official, Benefits Agency). The Department was especially concerned about the high level of fraud and error on benefits expenditure (I15 Senior Official, Benefits Agency). The Department tried to use other aspects of the agency model, including the appointment of the Chief Executive, to exercise control. The first Chief Executive, Michael Bichard, was seen as trying to make the Agency too independent. Consequently when his successor was chosen, one of the criteria was to choose someone who would be 'managerial' and follow the spirit of the framework and targets set down by the Department (I13 Senior Official, Benefits Agency).

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Whilst it is not possible to evaluate the performance of the agency system compared to other forms, ministers and officials did make an implicit comparison of the Agency and the alternative of a private firm handling service delivery. In the mid-1990s officials and politicians in the Department of Social Security and the Treasury considered using contracts with private firms. The firms would have probably taken over the staff and equipment of the Agency in the first instance and delivered services in exchange for a fee. However, this possibility was rejected partly because it was felt that the contracts would be too difficult to specify and the organisation would be even more difficult to control than the agency (I15 Senior Official, Benefits Agency).

The problems of controlling the Agency became more acute after 1997 when Labour ministers were elected. Their agenda involved a change in emphasis towards encouraging employability and a social security system more 'responsive to, and providing a more direct service for the public' (Chancellor of the Duchy of Lancaster 1997:192). This agenda involved focusing more on the needs of the clients in the system rather than just trying to reduce the costs of running the system. This agenda was even more difficult to achieve using the system that did not have end to end responsibility for the design and implementation of policy, because the policy being implemented was more ambitious. The regulatory system was also inappropriate for a client focus, because the targets were oriented towards performance in terms of separate benefits (I14 Senior Official, Department of Social Security; I15 Senior Official, Department of Social Security).

The use of performance targets exacerbated the problems of joint working with other bodies by strengthening incentives for the Agency to focus on its own activities regardless of the effect on others' work. This effect was evident in the delivery of Housing Benefit. Whilst local authorities were inefficient in their own administration of benefits, the Agency made a substantial contribution to the difficulties (BFI 1999d). The Benefits Agency's own targets did not include its effects on local authorities' work. Whilst the BA had service level agreements with local authorities since 1992 setting out the Agency's aims in co-operating

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with these organisations, an NAO study found that a majority of local authorities felt that these agreements were not working (NAO 1997). The Benefit Fraud Inspectorate found that in 57 per cent of their inspections, liaison needed to be improved between the Benefits Agency and local authorities. The required improvements included better exchange of information, more cross agency working and better feedback on fraud cases (BFI 1999d: Sec 1).

These general problems were exemplified by the findings of a Benefit Fraud Inspectorate (BFI) investigation of the BA London South Area Directorate (AD3). BFI found that the BA often did not forward form NHB1 promptly, which was required by local authorities if a claimant made a claim for Housing Benefit through the Agency or a Job Centre. This delay hampered local authorities' ability to pay the benefit within 14 days, which was a statutory target for local authorities (BFI 1999a: Sec 8.11). The BA was often slow in responding to requests for adjudication about whether Income Support had been withdrawn in cases where it was associated with Housing Benefit, information which the local authorities needed before they could recover overpaid benefit (NAO 1997 57-61). The low priority that co-operation was afforded by staff in the Agency was reflected in the organisation's lack of proper monitoring of service level agreements, so the body failed to pick up and deal with these sort of shortcomings (BFI 1999a: Appendix B).

The Agency's incentive to achieve its own fraud targets placed the body in competition with local authorities in trying to stamp out fraud and placed emphasis on trying to raise levels of fraud detection rather than stamping it out. In some instances the Agency did not pass on cases of fraud it discovered to the local authorities because it wanted to keep the savings to help achieve its own fraud targets (NAO 1997: 62-3). The schemes used the principle of 'finders-keepers' for bodies detecting fraud, which discouraged information sharing. The BA's 'Spotlight' anti-fraud initiatives did not involved local authorities as much as they could have, in part because of a concern to pursue its own targets (NAO 1997:71). In some cases there was an atmosphere of mutual suspicion between the Agency and local authorities, although the relationship varied around the country (NAO 1997:66).

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The performance target system led to co-ordination problems with other agencies. The Agency was supposed to co-operate with the Employment Service in delivering Jobseeker's Allowance but it was always under pressure to use resources to promote the achievement of its own targets. Problems caused by targets were reflected in working with the Contributions Agency. This Agency was responsible for protecting the rights of contributors and interests of taxpayers through efficient payment and recording of National Insurance contributions. The Contributions Agency used National Insurance Numbers to identify contributors. Most of these numbers were created by the Contributions Agency but about 30 per cent were created by the Benefits Agency and then passed on using a special form, CA5400. The two agencies had a National Service Statement in place to cover areas where their work coincided. However, there were no high level Benefits Agency targets for this service. There was no target time for passing the forms from the BA to the Contributions Agency. The Benefits Agency undertook poor quality interviews as part of the application process and used inexperience of its staff. These problems resulted in 34,000 CA5400s, about 15 per cent of the total, being returned by the Contributions Agency each year. The return of forms was inefficient for the Benefits Agency because it had to undertake the application process again, but even more of a problem for the Contributions Agency, because the allocation of numbers was a key part of its business. Because of the problems, 54% per cent of forms took more than 16 days, resulting in out of date information being used to create National Insurance accounts, damaging the collection of contributions (BFI 1999c:Secs 3.11-3).

Conclusion

The performance of agencies lends partial support to the third hypothesis of the public interest model. In terms of economy, staffing civil service staff fell by 20 per cent between the start of the reform in 1988/89 and 1997/98. However, agencies were not associated with an improvement in overall central government expenditure. Central government administrative expenditure rose in real terms by 9 per cent and total central government expenditure rose by 18.9 per cent over

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the period. The changes in expenditure were more positive for the agency model in the mature phase of agency creation after 1996. After about two thirds of central government administrative resources had been put into agencies, total administrative expenditure fell by 4.8 per cent and total expenditure fell by 2.5 per cent in real terms. The survey of 72 agencies reveals a fall in real terms total administrative costs of 4.6 per cent for this group between 1995/96 and 1997/98. In terms of individual agencies, the median change in real terms administrative budget was a fall of 4.4 per cent between 1995/96 and 1997/98. So whilst the model was not associated with improvements in economy overall, except in staffing, there was an association between the model and improvements in economy in the mature phase of the agency reform, most clearly in falls in administrative costs.

There were differences in economy between agency types. In terms of overall real terms administrative costs for each type, the contract/transfer type fell by 5.1 per cent and the delivery type by 4.3 per cent. In contrast, the trading type fell by just 1 per cent and trading/contract/transfer type rose by 12 per cent. In terms of the median score for individual agencies of different types, the most striking difference was the median fall of 5.3 per cent for non-trading types compared to the increase of 8.2 per cent for trading types. The increase in administrative expenditure of trading types perhaps reflected a response to consumer demand and is consistent with the expectations of the public interest model. In contrast, ministers generally expressed the wish to reduce expenditure for other types of agency, and in this sense, the changes are partially consistent with the expectations of the model.

In the case of the Benefits Agency, real terms administrative expenditure fell by 4.4 per cent between 1995/96 and 1997/98 but was still 17 per cent higher in 1997/98 than in the first year of the Agency in 1991/92. Staff figures were 5 per cent higher at the end of the period than at the start of the Agency's life. Over the life of the Agency, real terms total spending rose 15 per cent, although it was falling at the end of the period. In terms of economy, this Agency did not appear to perform well, although, as for agencies in general, economy was better towards the end of the period. The Agency provides little support for the public

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interest model, except in the fall in administrative spending in the mature phase of the agency reform.

More limited conclusions about the third hypothesis can be made in terms of efficiency and effectiveness. On average over the period 1993 to 1999, only 6 per cent of agencies had problems with their accounts identified by NAO. On the measure of ministerial satisfaction, 88 per cent of the 72 agencies surveyed were in the satisfactory or above category. These findings suggest that agencies were broadly successful, offering some support for the third hypothesis. But the case of the Benefits Agency illustrates wider performance issues surrounding efficiency and effectiveness. Whilst the Agency was able to improve customer service, there were serious shortcomings in effectiveness, particularly inaccuracy in the delivery of benefits amounting to, on average, 7 per cent of the transfer budget. Effectiveness appeared to worsen compared to the period before the creation of the Agency, with higher inaccuracy of payments.. The Agency was associated with better use of some resources. According to a crude measure of efficiency based on workload, the Agency improved efficiency in the 1990s. But problems with effectiveness meant that the efficiency of the body was compromised in key areas of service delivery. There was further indirect ineffectiveness by bodies depending on joint working with the Agency, especially local authorities in the administration of Housing Benefit, where 7 per cent of expenditure was paid out inaccurately

There is evidence that the agency forms contributed to performance problems in the Benefits Agency, contrary to the third hypothesis of the public interest model. The survey of performance before and after the Agency was set up survey showed that poor performance was a long standing problem, predating the establishment of the Agency. But there were problems of communication between the sections of the Department of Social Security Headquarters responsible for policy and those in the Agency responsible for implementation. Some policy was designed without sufficient thought for implementation and communications problems contributed to the pensions failure. The organisational separation exacerbated difficulties in joint working with other bodies through different working conditions. However, this did not greatly compromise the

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delivery of some joint services, such as Jobseeker's Allowance, in part, because of the use of joint boards and local arrangements contrary to the main thrust of the agency model.

The regulatory system had a mixed effect on performance. The budget system of input controls over the agency, after initial increases, brought down administrative spending. The performance target systems affected internal target regimes and management practices. The desire to meet the Agency's own targets was more important than working cooperatively with other bodies. Problems were evident in working with local authorities in Housing Benefit. Within the Agency, concern with meeting targets for speed of clearance led accuracy to be neglected, with detrimental effects on performance in this area. At exactly the time that Sir Robin Butler was praising the effect of the model on speed and accuracy in the quote at the start of this chapter, benefit payments inaccuracy was spiralling out of control. The control problem became more significant for ministers in the incoming Labour Government of 1997, who found it more difficult to pursue their agenda using the agency model, leading to increasing dissatisfaction with the model.

The conclusions about the effect of the agency model relate to the Benefits Agency and are not directly applicable to the full set of agencies. However, the conclusions might be expected to have indirect relevance to other contract/transfer agencies. In particular, the finding that whilst administrative expenditure was reduced at the end of the period it was more difficult to reduce transfer expenditure throughout the period, might have general relevance for agencies of this type. The findings may have some particular relevance to non-- trading agencies. The Benefits Agency shows the way that ministers were able to control administrative costs in non-trading agencies by keeping traditional budgeting and expenditure control systems. More generally, the Benefits Agency shared the main features of the agency model with other agencies so there are good reasons to think that the findings may have some general relevance. The Benefits Agency showed the way features of the model created inefficiency and ineffectiveness. Although the Agency was in the satisfactory or above category in terms of ministerial satisfaction for the period 1995/96 to 1997/98 concern was

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mounting towards the end of the period. For this reason, the Agency is unlikely to be typical of most agencies where the model's effect on efficiency and effectiveness seems to have been more positive.

Chapter 6: The Institutional Rational Choice Approach

'On the bureau-shaping model the [Next Steps] hiving-off proposals provide senior bureaucrats with a unique opportunity to engage in wholesale resphaping of their bureaus to attain their ideal form of small, elite, staff agencies (Dunleavy 1991:226).

The institutional rational choice approach offers a way of explaining inconsistencies between the public interest model's hypotheses and evidence about the agency reform and the performance of agencies. Section One explores how an alternative account can be derived using insights from institutional rational choice. Section Two uses insights from general rational choice models of bureaucracy to help develop the alternative account. Section Three suggests that Patrick Dunleavy's bureau-shaping model (Dunleavy 1985;1991) is a valuable source for developing the alternative account but that it is not suitable for this task in its current form.

Section One: The Potential of Institutional Rational Choice

The public interest model's first hypothesis is not consistent with the contradictions in the official accounts. The contradictions centred on different parts of central government seeming to have had different views of what the reform was and should have been. The models second hypothesis was partially consistent with the evidence, but did not fit cases where the agency model was used to handle policy and non-routine activities. The third hypothesis was partially consistent with the performance of agencies, but performance deviated from that which was expected. There was inappropriate use of the agency form, beyond that which is compatible with the public interest model. In this sense, the officials and politicians concerned with the reform were mistaken about the likely affects of adopting the model. An account is needed of why the mistakes happened in the way that it did and why the agency form was seen as such a desirable model by politicians and civil servants.

The alternative account developed here seeks to be more consistent with the evidence using insights from institutional rational choice. Rational choice, broadly defined, is the application of the tools of economic ideas to politics (Mueller 1989). The tools used include specifying micro foundations for macro phenomena and viewing aggregate outcomes as the result of the actions of individuals. Individuals are viewed as making decisions to further their interests based upon their assessment of the world around them. Sometimes this is simplified to be egoistic maximising behaviour, but this is compatible with a wide range of behaviour. Actors pursue both individual and collective strategies to improve their welfare. Individual strategies are those that require no co-ordination with others to bring about and where the benefits accrue to the individual collective strategies are the opposite, requiring co-ordination to bring about or shared benefits. Between these extremes are mixed strategies. In a broad sense rational choice is an empty theory, merely suggesting some form of instrumental action justifiable in terms of the aims or wishes of the actors involved. However, individual actors are necessary but not sufficient for explaining outcomes. Institutional features are important to understanding the situation in which individuals make choices which enable and constrain choices (Dowding 1994).

The meaning of 'institution', how they arise and how they affect individuals' behaviour is a much debated issue (see Powell and DiMagio 1991, Rothstein 1996). The strong theoretical position of institutional theory is that institutions have their own dynamic which sets up processes. This 'institutional' perspective contends that 'institutions provide a temporary order in political life and that the content and implementation of comprehensive administrative reform programs are influenced by the institutional and historical context within which reforms take place' (Olsen, 1991 p 126). In this view, organisations are not necessarily fully independent of intentions but they exert considerable influence over actors who seek to change them and consequently dictate their own form, reforms are path dependent. In an extreme case reform may even be the result of unintended 'garbage can' processes where solutions emerge regardless of the intentions of actors (March and Olsen, 1984; 1989).

In contrast, the term institution is used here to mean structures with some stability over time which constrain and enabling certain kinds of action by individuals. Rational choice has often been seen in contrast to approaches incorporating forms of institutionalism, in terms of the study of institutions including their origin and role in affecting human behaviour. However rational choice is compatible with institutional approaches by incorporating institutions as the rules used by individuals for determining who and what are included in decision situations, how information is structured, what actions can be taken and how individual actions are aggregated. Individuals carry out actions within institutions which shape and facilitate their behaviour and there is no necessary incompatibility (Dowding 1994).

The rational choice approach has strong similarities with the public interest model. The similarities include purposeful, goal directed action by actors using all the information available to them to pursue their goals in choice of organisational structure. The transaction cost minimising process is undertaken, but instead of assuming that the central state shares a common 'public interest', it pays more attention to the institutional structure of the state. In the public interest model, the structure was assumed to be 'unitary' in attempting to minimise transaction costs, with a task oriented split between the central team developing strategic guidance on Next Steps and those in the departments setting up organisations. However, in the institutional rational choice approach, the structure of the central state is a historically 'given' entity, in the sense civil servants and politicians are located in an institution that is the product of many previous individuals' actions and intended and unintended consequence.

In broad terms, the state is as a set of government institutions of relatively recent historical origin occurring in liberal democratic countries (Dunleavy and O'Leary 1987 p 1). Government involves exercising state power, the power to make binding rules applicable to all individuals in a given area and to enforce them, using coercion if necessary. The 'liberal democratic' state is restricted, usually by laws, in the way it can treat individuals and citizens of the state can exercise some control over the state by electing representatives who govern state activity. The central state in the UK is defined as those organisations directly controlled by members

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of the central government, who are ministers accountable to the central legislature. This definition excludes local government organisation which has partially separate political accountability structures. Ministers are individually and collectively responsible ministers who are accountable for the operation of central government (Dowding 1995: 153-178). These patterns set the overall 'institutional' relationship between the structures set up to deliver public services and formal political accountability structures in the state. Bureaucrats and politicians are located in units within the central state. Actors in these units develop with their own interests and view of the public interest. The approach examines at how they interact both within the state and with the broader public who are taxpayers and service users.

Whilst the public interest model assumes that transaction cost minimisation automatically operates in the interest of the broader public, the alternative approach suggests that these processes are mediated by the interests of actors operating in different parts of the state, and by interaction between these different parts. Individual politicians and civil servants are different people with different, complex, personalities. Instead of modelling individual complexity, the technique adopted here captures the main features of an individual occupying a particular role in the structure of the central state. The approach simplifies a potentially very complex picture into one which captures the main processes, allowing factors such as individual personalities to be invoked to fill out the explanation where the broad model does not seem to capture what was going on. There are many rational choice models of bureaucracy which are possible candidates for the alternative account developed here and their potential is explored in the next two sections.

Section Two: Rational Choice Models of Bureaucracy

There are many rational choice models of bureaucracy (for surveys see Bendor 1990 and Weimer and Vining 1996). However, this section focuses on models which, whilst were not developed specifically for examining reorganisation, can be used to develop insights into the agency reform. Niskanen's budget/output maximising model examines the effects of bureaucratic behaviour on the efficiency of public service production and has only indirect relevance to reorganisations. The
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model is one of the best known rational model of bureaucracy and the general model and appears in several texts on rational choice (Meuller 1991, Jackson 1982, Dowding 1995). Dowding makes a distinction between the behavioural part of the model and the equilibrium model. In the behavioural model bureaucrats seek to maximise budgets because-

'Among the several variable that may enter the bureaucrat's utility function are the following: salary, prerequisites of the office, public reputation, power, patronage, output of the bureau, ease of making changes and ease of managing the bureau. All of these variables except the last two, I contend, are a positive monotonic function of the total budget of the bureau during the bureaucrat's tenure in office' (Niskanen 1971 p.38).

The equilibrium model consists of the behaviourial model combined with specification of the structure of the relationship between the bureau and its sponsor. Niskanen posited that this structure consists of a bilateral monopoly between a legislature or legislative committee funding a bureau for goods and services. The sponsor is assumed to be the sole buyer of the good or service on behalf of the public. Similarly the bureau is taken to be the only supplier of goods or services. In a market exchange the outcome of a bilateral monopoly is indeterminate, it is not necessarily the case that one or the other side will be able to exploit their position for their own benefit. In contrast in the Niskanen model bureaucrats have the better side of an information asymmetry and have a degree of agenda control, enabling them to take advantage of their position.

In the Niskanen model the sponsor gives a budget to the bureau based on the perceived public benefit from output of the bureau. Public benefits are assumed to increase with quantity, but at a decreasing rate, shown by the downward sloping line B1 in Figure 6.1 at the end of this chapter. The bureau is assumed to have a cost range for producing the output which increases at an increasing rate with rises in quantity, shown by the upward sloping line C in Figure 6.1. However the cost schedule is assumed to be known to the bureau only rather than the sponsor, creating a problem of monitoring for the sponsor who sees only the total output of the bureau and its total budget. This feature of the sponsor's position means that the
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sponsor cannot tell whether the output is efficient, that is whether at the margin the benefits of increasing output of the bureau exceed the costs of producing that extra output.

The bureau can maximise its budget subject to the constraint that the budget covers the costs of production. This situation enables the bureau to expand production beyond the efficient (in terms of marginal benefit for the public equalling marginal cost) at Q0 to Q*, where all the surplus of production where benefit exceeds cost up to point Q0 (area S) is swallowed up by the deficit of overproduction where cost exceeds benefit from point Q0 to Q* (area D). The bureau can drive up the output to this level by only offering this level of output to the sponsor rather than intermediate levels. This situation enables the bureau to produce twice the level of output that would have been supplied had the bureau production been produced in a market, which would have led to output of Q0. Niskanen also introduces the possibility that the sponsor's demand for the bureau's output might be so inelastic, shown by line B2, that the marginal benefit of extra output would fall to zero before all the net surplus from initial production had been exploited in inefficient over-production, resulting in output Q2. At this point the sponsor is satiated and the bureau cannot deliver output which gives a negative net benefit which would be noticeably bad to the sponsor.

Although Niskanen's model is commonly known as 'budget maximising' it is really a 'budget related to output maximising model' because the bureau has to produce output with the budget. In the terms used here, there is a tension between the behavioural model and the equilibrium model. This problem has been previously recognised-

> 'Niskanen assumes that the goal of the bureaucrat is to generate the largest possible budget. This is equivalent to saying that bureaucrats maximise output subject to the bureau's budget constraint. Carrying this to its logical conclusion would imply zero fiscal residuum remaining for such utility dimensions as salary, prerequisites and security - dimensions which Niskanen assumes were the consequences of budget maximisation'. (Orzechowski 1977: 230)

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However if the model is taken as a simple budget/output maximising model, regardless of underlying motivations for this behaviour this objection is less relevant.

The model doesn't directly predict the nature of reorganisations but the implication of the assumptions is that reorganisations will be pursued to maximise budgets. But this general structure of the model seems to lack empirical validity in the UK case. The institutions that Niskanen describes does not seem to apply to the UK parliamentary system with executive politicians located in ministries, instead it was developed for the US to explore bureaucracies interacting with Congressional committees to get funding. Similarly, the implications for Next Steps do not appear consistent with the practice of the reform. Next Steps involved departments handing over large sections of their administrative budgets to agencies, and seems inconsistent with departmental officials wanting to keep as much budget as possible for themselves. In terms of the performance of agencies, budgets were reduced in the 'mature' phase of the reform, which does not fit with Niskanen's expectations. The agency model does not seem to have been a very successful budget maximising strategy. A more general evaluation of the Niskanen model, examining broad changes in administrative spending in the UK central state during the 1970s and 1980s similarly found little evidence of successful budget maximising behaviour (Dunsire and Hood 1989:39-42).

However, Dowding argues that, whilst the equilibrium model does not fit the UK case, the behavioural model can be salvaged because bureaucrats may have tried unsuccessfully to maximise budgets. He argues that 'The problem, though, is not so much the self-interested assumptions of the model, but rather Niskanen's unrealistic description of bureaucratic organisation especially as applied to Britain.'(Dowding 1995:88). However it is unclear whether Dowding is referring to the behavioural model as consisting of budget maximising or more general self-interested motivations. In his broad discussion of the behavioural model it seems to be the former (Dowding 1995:83-87). This is a difficult position to hold on the British case because bureaucrats have not always defended budgets to the exclusion of other concerns even when this may have been possible. Dowding's evidence is

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mostly drawn from before 1987; the Next Steps reform since 1988 is a clear example of departmental officials giving up large parts of their budgets, without active opposition by these officials. This evidence is clearly against budget maximising as the main motivating force. However at times Dowding seems to argue that the behavioural model consists of self-interested behaviour; the quote given above seems to support this interpretation. Dowding argues-

> 'Officials may pursue their own objectives ranging from the individually private to the collectively public: for example, vertical promotion in the bureau, promotion across departments, upward re-grading of their particular job, workload reduction, diversion of money to their own pet schemes, general improvement in working conditions, general pay increases across all levels of staff, budget maximisation and so on. In other words pursuing self interest may not always lead to budget maximisation. Indeed civil servants may gain approbation through cutting budgets.' (Dowding 1995:96-97).

However, if the behavioural model is considered to be general self-interested motivation rather than budget maximising then the model is no longer Niskanen's because his model was clearly focused on budget maximising. It could be argued that promotion may be a structural consideration, a way to get into a position with a higher budget, and part of the equilibrium model not the behavioural model. But a concern with working conditions and workload are most obviously part of the 'self-interest' motivation of the behavioural model. The   Dowding reformulation of Niskanen's behavioural model as self-interested behaviour may appear to be more applicable to the British case but it creates problems of its own. The reformulation is so vague as to be compatible with any course of events. Most action can be interpreted as purposive and self-interested in this general sense, for example seemingly altruistic acts can be interpreted in terms of benefits to the self. For these reasons, beyond the insight that bureaucrats may be concerned with welfare derived from their budget, the Niskanen model does not seem very helpful for explaining agencification.

Niskanen himself suggested a second, different model, changing the behavioural assumption to the maximisation of discretionary budget (for example

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see Niskanen 1991). But the models suffer from the same two problems that the original Niskanen model has for the purposes of this research. Firstly, the models were developed primarily for the US context and fail to take into account the different institutional structure in the UK. Secondly, they are too general to generate specific implications for a reorganisation like Next Steps. However, they offer the valuable insight of suggesting that the state is fragmented and that public officials interests may affect the course of the reform, rather than state actors pursuing the public interest.

Section Three: The Bureau-shaping Model

The bureau-shaping model (Dunleavy 1985;1991) offers considerable potential for understanding the agency reform because it focuses directly on the reorganisation of public bodies. Dunleavy developed his model in part based on the earlier work of Anthony Downs (1967). The Downs model is a hybrid of pluralist and rational choice approaches, looking at groups of bureaucrats, individual incentives and outcomes to develop 'a useful theory of bureaucratic decision making' (Downs 1967:1). His model is premised on the view that officials act rationally to achieve their goals in the most efficient manner and are motivated by self interest. The primary characteristics of bureaux identified by Downs are-

1) Bureaux are large, the highest ranking members know less than half of all the other members.

2) The majority of members are full time workers who depend upon their employment in the organisation for most of their income.

3) The assessment of the performance of personnel is by the way they perform their organisational role (for example not race, class, patronage).

4) The major portion of a bureau's output is not directly or indirectly evaluated in markets external to the organisation by means of voluntary quid pro quo transactions (Downs 1967: 24-25).

Downs argued that some form of hierarchy is a functional requirement of effective operations for non-market organisations to settle internal conflict. Alternative mechanisms, such as voting, are rejected as inefficient (Downs

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1967:51-53). These characteristics are broadly in line with the inside of the UK central state. Down also suggested that different types of official can be found in bureaux. These include two types of purely self interested officials who are motivated 'almost entirely by goals that benefit themselves rather than their bureaus or society as a whole' (Downs 1967:81). The types include climbers who consider power, income and prestige as nearly all important in their value structures and conservers who consider convenience and security as nearly all important and seek to maintain existing levels of income, power and prestige rather than maximise them. There are three further types of mixed motive officials who have goals that combine self interest and altruistic loyalty to larger values. These types are zealots who are loyal to sacred, relatively narrow policies and power seeking, advocates who are loyal to a broader set of functions or to a broader organisation than zealots and also power seeking and statesmen who are loyal to society as a whole and who seek power to improve general welfare as they see it. They resemble classic public administration theory bureaucrats. (Downs 1967: 88-89)

Down's argued that psychological predisposition and the nature of the position occupied by the bureaucrat influences which type an official will be. This assumption contrasts with the role specific preferences usually assumed in rational choice accounts, leading Dunleavy to call this element of the work pluralist (Dunleavy 1991:). The complex set of goals attributed to officials makes the theoretical focus less clear. Downs argues that an official's type can be identified by spotting the behavioural characteristics of the official. Predictions about the official can then be made on the basis of type. However unpredictability is introduced because in the theory officials may also switch types on the basis of the official's assessment of the successfulness of behaviour associated with the type. Several of Down's predictions are independent of the types of official and are based on the original primary characteristics of bureaux (Downs 1967:91), so problems with the types does not damage the whole theoretical project. Unfortunately the problems do affect predictions about reorganisation. It seems strange that Downs introduced such vague psychological proclivities into his theory of bureaucracy which are largely absent from his work on parties and elections (Downs 1957).

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Downs used his model of bureau characteristics and bureaucrat types to examine change in bureaux. He argued that change can occur on a number of levels 'The shallowest consists of the specific actions taken by the bureau, the second of the decision making rules it uses, the third of the institutional structure it uses to make those rules, and the deepest of its general purposes'. (Downs 1967: 167-8). The Next Steps reform is a third level change in Down's model. Downs argued that such change is initiated when officials recognise performance gaps between what they are doing and what they believe they ought to be doing (Downs 1967:191). The resulting change depends on the interaction between those officials who have identified a performance gap and other officials in the bureau. This interaction is affected by the membership of the bureau, including key individual members and the relative importance of different types of official (zealots tend to initiate change whereas conservers resist). Other factors of importance include internal technical changes, bureau size and external factors including complexity of the social function of the bureau, the influence of external actors with power over the bureau and the behaviour of rival bureaux attempting to take over the bureau's functions.

In terms of 'Next Steps', the account moves beyond the official account to examine conflict between groups in the bureaucracy and is helpful for explaining the contradictory accounts of 'Next Steps' presented by different parts of the UK central state that were noted in earlier chapters. Downs suggested that change will often be difficult to achieve - he noted that creativity or actively seeking change in rare in bureaux (Downs 967: 202). He also suggested that most bureaucrat types will resist changes that involve losing function and control over resources (Downs 1967: 196-7). This prediction seems at odds with the rapid change and departments voluntarily handing over functions to agencies. Downs also suggested that changes were likely to have to come from outside rather than from within organisations, because the number of conservers relative to advocates and zealots in a bureau tended to grow over time. Much of the change in the agency initiative came from within departments themselves as well as central agencies.

However, the bureau-shaping model of reorganisation appears to have more relevance for explaining 'Next Steps'. The model was developed by Dunleavy (1985, 1984, 1989b, 1991) as an attempt to overcome some of the problems of

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Downs' and Niskanen's models. The bureau-shaping model uses a universal view of bureaucrat tastes as the same as in standard economics accounts (Mueller 1991) and makes behaviour vary according to the constraints/possibilities encountered by officials which vary by role. By this reasoning, Downs' types can be viewed as strategies for officials which are not fundamental, in the sense of psychologically grounded and reflecting different types of personality. The bureau-shaping model has two main elements. Firstly, an assessment of the benefits from budget maximising and, secondly, the insight that officials gain welfare from 'work related utility' which is not necessarily related to budgets.

Firstly, the model suggests that, whilst bureaucrats may be concerned with budgets, there are several different types of budget which yield different types of benefit to the official. The model suggests that Niskanen's concern with global budget is misplaced. Dunleavy argued, drawing on the literature on budget maximisation explored in the last section, that welfare will not be equally associated with different types of budget. The relationship between types of budget, benefits and rank of official are summarised in Table 6.1.

Bureaucrats' welfare maximising strategies depend on their rank and the relative significance of components of a bureau's budget. The model suggests that junior bureaucrats will be more concerned with maximising core budgets and top officials more concerned with bureau budgets and programme budgets. Mid-ranked officials' benefits are more evenly spread across the budget types. The implications are that in types of bureau where core budget is a major part of bureau and programme budget, for example delivery and servicing types, junior and more senior officials will have a common interest in pushing up programme or bureau budget. Bu the conditions under which coalitions will form is not specified, and the main thrust of the rest of the model is that senior rather than junior officials will have the most influence over the bureau. The difficulties with using the rank and variety of benefits aspects of the Dunleavy model make these parts of the model difficult to use in this analysis. However, the main contribution of the bureau-shaping model is the insight that all officials gain from core budget but less from the bureau budget or programme budget. For this reason, Niskanen was

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oversimplifying by concentrating on overall, or in Dunleavy's terms bureau or programme budget, maximisation.

Table 6.1 Welfare Associated With Different Parts of the Budget

Budget	Welfare	Salience for Ranks: Bottom	Middle	Top
Core Budget	Improving job security	++	+	0
	Expanding career prospects	+	++	0
	Increased demand for skills	+	++	0
	Triggering upward regrading	0	++	+
	Reducing conflict in management	0	+	++
Bureau Budget	Boosting bureau prestige	0	+	++
	Improved relations with clients or contractors	0	+	++
	Slack to cope with crises	0	+	++
Programme Budget	Slack to cope with crises	0	+	++
	Increased patronage powers	0	0	++

Source: Adapted from Dunleavy (1991:192)

The Dunleavy model suggests that officials will pursue strategies to push up core budget, by advocating new programmes or reorganisations which contribute to this aim. In terms of the agency model, this implies that officials in the core department should be reluctant to give up parts of their organisations to agencies because of the related reductions in their core budget. Under the agency reform, the department looses core budget to the agency but its programme budget is swelled as the agency is under the strategic control of the department. This conclusion is contrary to the experience with Next Steps, where a large amount of activity was transferred to agencies. This part of the bureau shaping model cannot, by itself, form an account of the change.

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However, the bureau-shaping model recognises that officials' utilities are not exclusively dependent on budgets. Dunleavy argues that 'welfare maximising officials in policy making ranks are primarily concerned to improve their welfare by providing themselves with congenial work and a valued work environment' (Dunleavy 1991:200). The positive and negative values ascribed to bureaucrats are summarised in Table 6.2. Bureaucrats are assumed to prefer working in staff units with a collegial atmosphere and a central location to working in line functions with a corporate atmosphere and a peripheral location.

Table 6.2 Characteristics of a Bureau which are either Positively or Negatively Valued by Officials in the Bureau-shaping Model

Positively valued	Negatively valued
Staff functions: including innovative work, high level of discretion and broad scope of concerns	Line functions: including routine work, low discretion and narrow tasks
Collegial atmosphere: including small work units and co-operative work patterns	Corporate atmosphere; including large work units and non-elite and conflict ridden work patterns
Central location: including proximity to political power sources and high status social contacts	Peripheral location: including remoteness from political power sources and remoteness from high status social contacts

Source: Adapted from Dunleavy (1991:202)

Dunleavy suggests that bureau-shaping will predominately occur amongst senior officials who are able to control the form of their organisation. The bureau-shaping model views reorganisations as strategies by bureaucrats who seek to alter bureaux to suit their self-interests. Dunleavy argues:

'rational bureaucrats orientated primarily to work-related utilities pursue a bureau-shaping strategy designed to bring their bureau into a progressively closer approximation to 'staff' (rather than 'line') functions, a collegial atmosphere and a central location'.(Dunleavy 1991: 202-3)

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There are a wide range of strategies associated with bureau-shaping. These include major internal reorganisations to promote policy work over routine activities, transformations of internal work practices towards policy work, redefinition of relations with external partners to enhance policy contacts, competition with other bureaux to protect the scope of interesting work, load shedding, hiving off and contracting out functions which are seen as undesirabel (Dunleavy 1991:203-204).

The model recognises that officials are likely to experience collective action problems in seeking to pursue welfare enhancing strategies. Whilst an individual may obtain benefit from higher budget or from a reshaped bureau, he or she incurs costs from advocating such a change, for example time spent lobbying. The official would prefer to let others lobby for the change, from which he or she as a member of the organisation cannot easily be excluded, and save personal exertion of effort. A model of this problem is suggested for budget maximising but not for the bureau-shaping. Following Dunleavy's general argument, whilst he doesn't specify the type of interaction and its problems, the decision of individuals whether or not to contribute to strategies resembles a chicken game. For an individual official, if others contribute the individual is better off not contributing but if no-one else contributes then the individual is better off contributing than not contributing. The outcome is a mixed strategy, the balance depending on estimates of probable behaviour and net payoff sizes.

Dunleavy suggests that the model forms a potential explanation of 'Next Steps'. Writing at an early stage of the reform processes he argued that 'Opposition to this rolling programme [of agency creation] has come mostly from the public expenditure sections of the Treasury...They are directly threatened by proposals to allow deconcentrated agencies the freedom to transfer money between budget heads, operate their own salaries and conditions policies, recruit and promote as they see fit, and adopt new technology without clearing their decisions through the Treasury.' He continued that, in contrast, 'most senior officials in other Whitehall ministries have endorsed the government's strategy. The full implementation of the reforms would drastically reduce their

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departments' personnel and core budgets...On the bureau-shaping model the hiving-off proposals provide senior bureaucrats with a unique opportunity to engage in wholesale reshaping of their bureaux to obtain the ideal form of small, elite, staff agencies. The government report which triggered the reorganisation process candidly admitted that political and policy proposals preoccupied policy-level officials and inherently were always likely to do so.' (Dunleavy 1991:226).

Few attempts to evaluate the bureau-shaping model as an explanation of Next Steps have been made. However, one account rejected the model on a number of grounds. Marsh, Smith and Richards (2000) suggested that it neglected the role of politicians in driving the process, wrongly specified the tastes of officials, who were instead interested in management work, and that the changes have involved officials spending more time on management. Some of this critique appears to have relevance, for example the absence of politicians in the reform process in the Dunleavy model.

However, there are two main problems with the Marsh, Smith and Richards critique. Firstly, they use methods that are based near exclusively on evidence from interview material. The rational choice approach, and the style adopted in this work, does not rely exclusively on taking at face value the statements of participants in the reform process. Instead, support for conclusions based on such statements should be triangulated by other evidence, especially revealed preferences where individuals have to forgo some other alternative in order to do something, giving the action a cost for the actor. There is a danger that some statements given to researchers in interviews reflect what the individual feels he or she is supposed to say or would make a good impression rather than what was really going on. Individuals involved often had a vested interest in presenting reforms in a way which suggested that they were directed by politicians and in the interests of wider societal actors. The difficulties of relying on the face value of official statements to explore analysis has already been demonstrated, for example in the cases of nominal agencification where the exercise was largely a relabelling exercise but was included in the reform in a similar way to changes that were more fundamental.

The second problem with the Marsh, Smith, Richards critique is that some of the main problems with the Dunleavy model are not picked up by their analysis. These defects are so fundamental that it the model cannot be evaluated without further specification. The model is not very clear in the relationship between bureau-shaping strategies and budget-maximising strategies or how this affected a reform such as Next Steps (James 1995). For most of the text discussion, Dunleavy assumes that work related utilities are de-coupled from budget levels, contingent on the organisation of the bureau. However, at times, the argument is not clear. In Figure 7.11 (Dunleavy 1991: 207), reproduced as Figure 6.2 at the end of this chapter, the marginal advocacy costs of advocating higher levels of budget and benefits from a shaped bureau are related to programme budget. This implies higher benefits from lower levels of programme budget in a shaped bureau, and equilibrium sizes of bureau where marginal costs and benefits intersect. However, the figure conflicts with an interpretation of work related utilities as completely de-coupled from the budget. Officials are presented as being more concerned about protecting benefits from low levels of programme budget and less concerned with higher levels of this budget shown by shifting the diminishing marginal utility curve from DMU1 to DMU2. The relationship between work related benefits and budget benefits needs clearer articulation, particularly whether they largely separate benefits or whether work benefit is dependent on a certain level of programme budget or some form of core budget within the overall programme budget. The empirical relevance of the model to the UK is unclear beyond the general assertion that bureaucrats prefer certain types of work to others and will engage in bureau-shaping strategies to try and reorganise their activities. However, the model offers the potential to be incorporated into a more comprehensive and more fully specified bureau-shaping account.

Conclusion

The institutional rational choice approach offers an alternative explanation to the public interest model. However, the existing rational choice models offer insights without by themselves being adequate accounts. The hypotheses about the UK reform are shown in Table 6.3, along with some of the evidence relating to them. The general rational choice models are not specific in

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the hypotheses they generate about agencification. The Niskanen (1971) model does not address reorganisation directly but the idea of self interested behaviour by bureaucrats appears to fit the UK better than the public interest account. However, the idea of budget maximising does not seem appropriate and the UK institutional structure is different to that in the US. The Downs model is more directly focused on reform but does not seem relate to the UK institutional environment.

The bureau-shaping model, which suggests that officials attempt to reshape and re-organise the bureaucracy into a different form that makes their own jobs more pleasant and satisfying, distancing top bureaucrats from tedious routine, is a valuable insight. However, the model needs more specification. The model lacks an adequate conception of the UK institutional environment, and in particular does not incorporate politicians sufficiently in the analysis. The next chapter constructs the mark II bureau-shaping model, synthesising insights from Dunleavy's model in a broader model that pays more attention to the institutional structure of the UK central state.

Table 6.3: Hypotheses about the Creation of Agencies from Rational Choice Models and Evidence from the UK

Rational Choice Model	Hypotheses Relating to UK Agencification	Evidence from UK
Niskanen (1971) budget/output model	No specific claims, but agencification will generally force up budgets and will only be undertaken for these reasons	Contradicted by departments passing on budget to agencies, and falls in agency budgets in the mature phase of the reform
Downs (1967) model of reorganisation	Where advocates and statesmen bureaucrats have influence, possibly outside of the organisation, reform will overcome resistance from conservers	Contradicted by rapid moves towards the use of agencies and departments passing on functions to agencies
Dunleavy (1991) bureau-shaping model	Bureau shaping strategies by senior officials will result in the creation of agencies to handle routine tasks staffed by more junior officials, but underspecification of why these strategies should occur	Unclear hypotheses, apparent neglect of politicians and other actors in the reform process, some support for agency creation as a bureau-shaping strategy

Source: Chapter Six

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Figure 6.1 Niskanen (1971) Budget Maximising Model
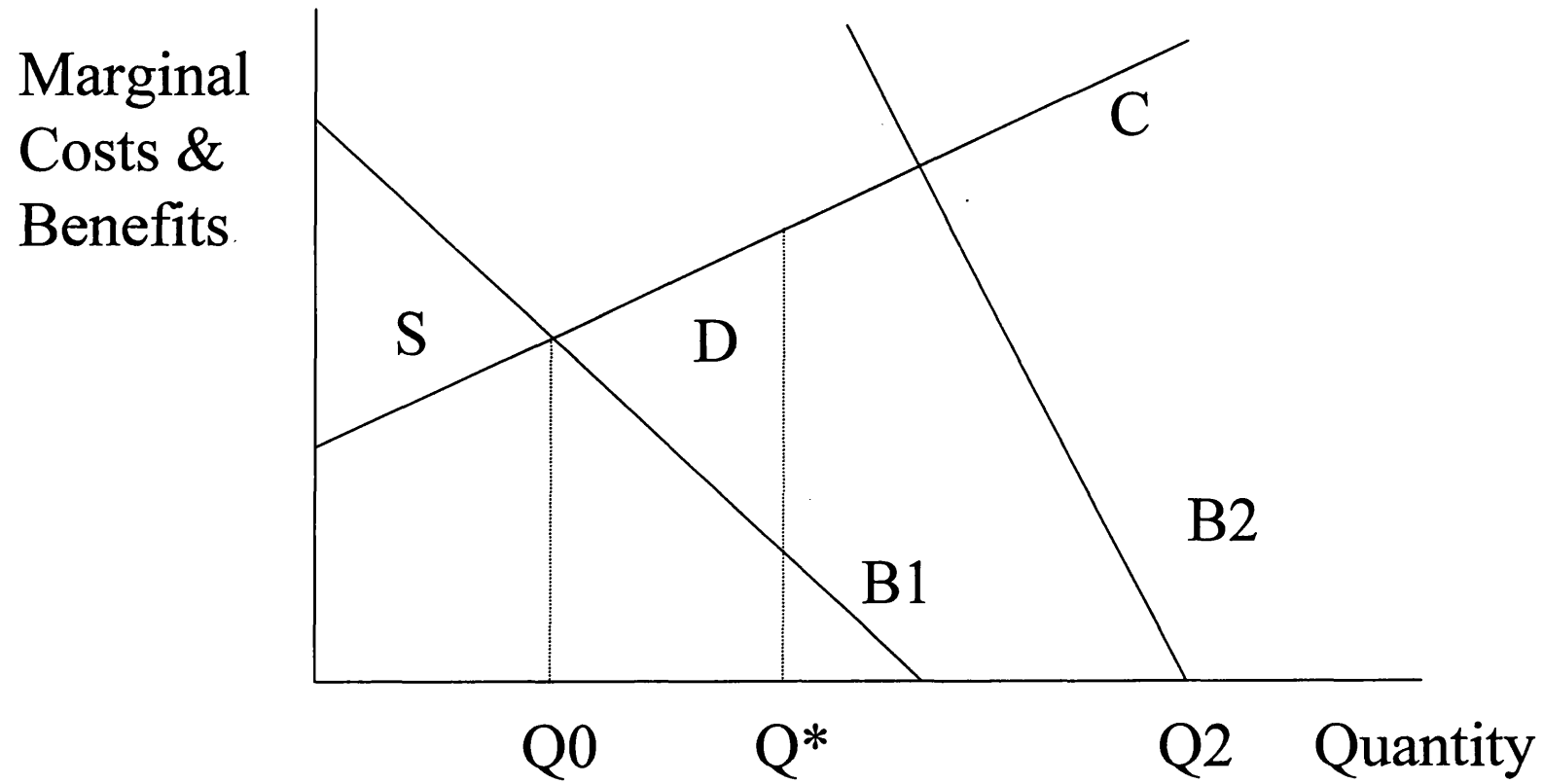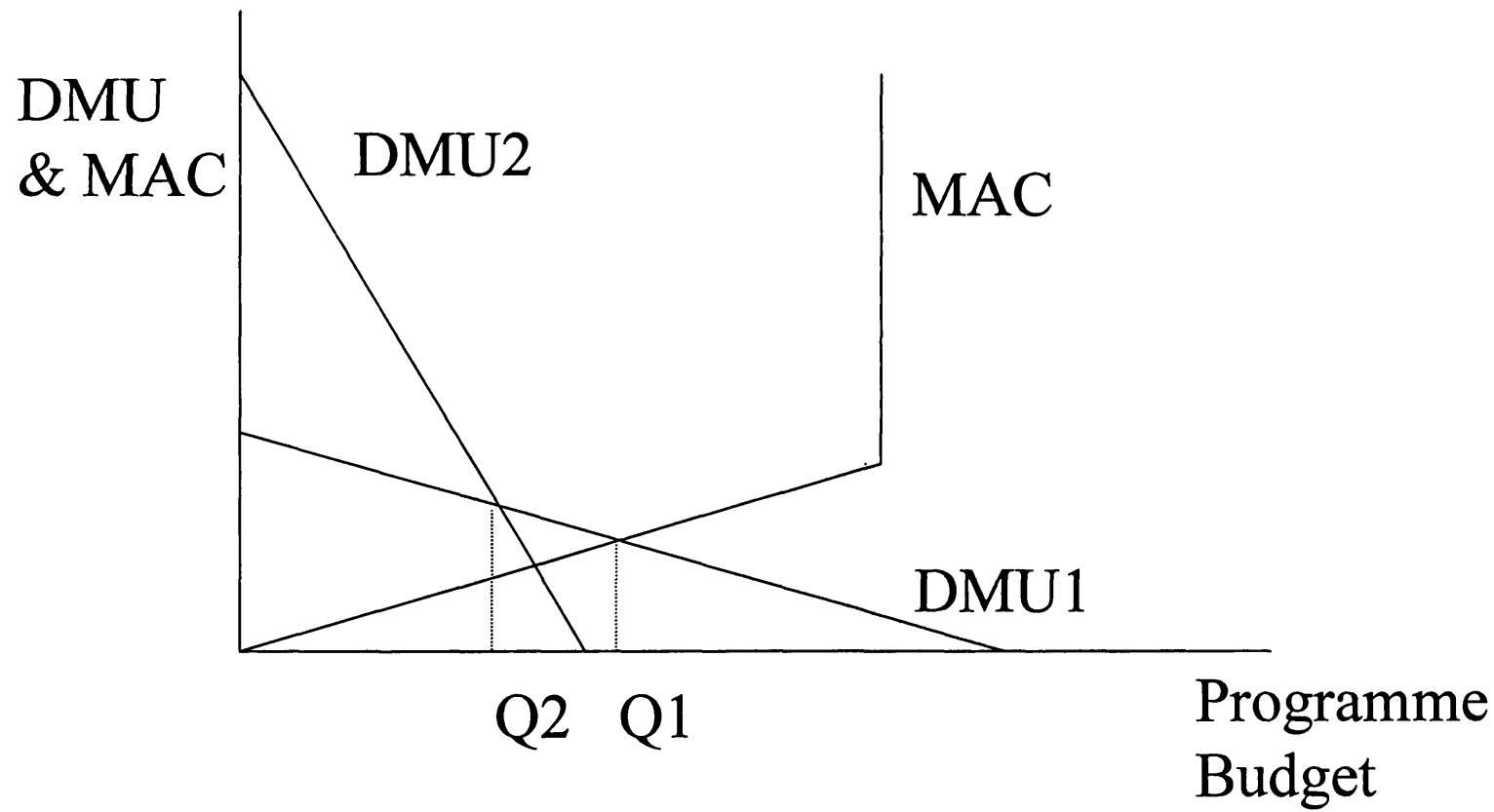

Marginal Costs & Benefits

S

D

C

B1

B2

Q0   Q*   Q2   Quantity

Figure 6.2 The Bureau-shaping Model's View of the Impact of Reorganisation (Dunleavy 1991:207)

DMU & MAC

DMU2

MAC

DMU1

Q2 Q1

Programme Budget

Chapter 7: The Mark II Bureau-shaping Model

'The skills of top civil servants are still policy oriented. Promotion to senior jobs is given to those whose main skills and experience are in policy and ministerial support. Very few have had direct experience of working in large executive organisations' (Efficiency Unit 1988:24).

The mark II bureau-shaping model is an alternative explanation for agency creation. The model incorporates insights from the bureau-shaping model to suggest that senior officials' preference for policy work rather than management work was an important reason for the way the reform was undertaken. Section One specifies the model of the overall institutional structure of the central state and how politicians' and civil servants' positions within these structures affected their role in the agency reform. Section Two focuses on the role of actors in the departments involved in identifying and setting up agencies. Section Three specifies how officials in central units and in agency candidates affected the course of the reform.

Section One: The Institutional Structure of the Central State

The mark II bureau-shaping model consists of a set of mechanisms by which the agency reform was brought about by the actions of individuals within the institutional structure of the central state. Actors' behaviour was influenced, in part, by the institutional context in which they operated which structurally suggested aims and opportunities. Officials and politicians did not simply seek to follow some version of the public interest. Instead their behaviour was influenced by the mandate of their organisation, personal welfare and career advancement. The way these goals were best achieved varied according to the institutional structure in which they operated, as did their ability to embark on individual or collective strategies to pursue these aims. This way of proceeding is a 'mixed' method, avoiding the assertion that everything happening in the central state was furthering a single public interest, as in the public interest model. The approach also avoids falling into the trap of stipulatively defining an alternative set of motives for bureaucrats, such as budget maximising or bureau-shaping, which seem to be

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unjustifiably plucked out of the air and, as the previous chapter showed, did not seem to fit the UK case.

Most of the actors involved in the reform were located within the central state, reporting to Parliament and the wider public. However, the legislature was not greatly involved in the process. No legislation was required to establish agencies, although there were some minor changes to the law to extend the provision of Trading Fund status to agencies in 1990. The most influential actors were senior officials and politicians. The civil servants all had some things in common. Their shared environment principally consisted of a career organising and running the central state working with politicians and, at least formally, attempting to implement the policies of the government of the day. Civil servants were recruited by similar procedures, and worked with each other in the central state over a prolonged time.

However, these individual officials and politicians were located in different parts of the state, giving actors a different outlook and incentive structure. The groups of officials are shown in Figure 7.1 at the end of this chapter. Each of the groups was important in the reform process. The first group was actors in central units, including the Efficiency Unit which came up with the original recommendations and the Next Steps Project Team which took over direction of the reform from 1988. The Project Team and other parts of the Cabinet Office issued guidance and acted as a central point for monitoring departments' progress and encouraging them to carry out the reform. Secondly, the Treasury, although part of the central group, was a separate body. The Treasury was semi-detached from the development of the reform, but could have blocked or delayed it because of its position as the source of authority on budgeting and accounting systems. Thirdly, beyond the central group, were officials in departments responsible for identifying agency candidates and setting them up. A fourth group was officials who were working in potential agency candidates and who were involved in the process of identifying candidates and setting up agencies.

The career structures of politicians were very different. They arrived in the central state through appointment as part of the Government. The Government was

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formed of around 110 politicians located in different parts of the central state (Hood and James 1997). In the late 1980s, they were members of the Conservative party and most of them were elected Members of Parliament. The main split was between those located at the centre, principally the Prime Minister and ministers in Cabinet, and those located in departments, including ministers not in the Cabinet. Prime Minister Thatcher was leader of the Conservative Party, set the government's agenda and acted as overall co-ordinator for the reform. Thatcher issued the statement announcing the Government's acceptance of the Efficiency Unit report in February 1988. Each of these two groups of politicians interacted with civil servants in the analogous organisational units. The relationships were between the Cabinet Office and the Prime Minister and Cabinet and between departmental officials and ministers not in the Cabinet, and between departmental officials and Cabinet ministers when outside of their role in Cabinet.

The public interest model's specification of the broad motivations of politicians seemed largely consistent with the evidence. Because politicians were elected, they had some incentive to be responsive to the wishes of the broader public, including taxpayers and the users of public services. In this sense, politicians were keen to try and improve the economy, efficiency and effectiveness of services. The Conservative Party won an election in 1987 prior to the reform, and won again in 1992, having held office continually since 1979. After the main period of agency creation they lost an election in 1997.

However, the electoral salience of agency creation appears to have been low. There was no mention of the reform in the Conservative Party Manifesto for the 1987 election. Instead this document couched intentions in general terms, stating 'We will press on with long-term management reforms in order to improve public services and reduce their cost' (Conservative party 1987:42). The Manifesto for the 1992 election mentioned the desire to continue setting up agencies as part of a wider programme 'to raise quality and efficiency in government' (Conservative Party 1992:15). The use of agencies was not a major issue in either of the two elections that took place once the reform was established (Butler and Kavanagh 1992:155-210;1997:133-185). Instead, intra-state processes seem to have been particularly important in affecting how the
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broad for improving public services emerged as the agency reform. The politicians did not appear to have a blueprint for the reform. In her autobiography, Margaret Thatcher only thought Next Steps worthy of a footnote and spoke of it in general terms as an attempt to improve management. She did not suggest that her ministers or party originated the reform or specify ways in which the reform was supposed to bring about improvements (Thatcher 1993:49). Instead, the reform appears to have been brought about by interaction between officials and politicians operating in different parts of the central state.

Section Two: Senior Officials and Politicians in Departments

The mark II bureau-shaping model suggests that senior officials and politicians in the departments highly significant in shaping the reform. Senior officials are defined as those civil servants of Grade 5 (Assistant Secretary) and above. In 1988 there were 3,613 officials of this grade out of a total of 492,527 non-industrial officials (Treasury 1988b, Cabinet Office 1995b). In 1995 the figures were slightly lower but with a similar proportionate split, with 3,445 senior officials from a total of 474,880 (Cabinet Office 1995b). By 1998, after a minor reorganisation of grades to create the Senior Civil Service, which mostly incorporated staff at Grades 1-5 but added some other staff raising the total, there were 3,720 senior staff out of 430,460 in total (Cabinet Office 1999). Whilst a few hundred of these staff were located in the Cabinet Office and the Treasury the bulk were in other departments.

The model suggests that important decisions relating to the creation of individual agencies were taken by senior officials at departmental level. Senior officials saw developing policy as their key role and, with this in mind, were concerned to protect the amount of time they spent on policy work in their day to day activities. This is compatible with the public interest model that sees officials as primarily seeking to develop and implement public policy as communicated to them in general terms by politicians. However, it suggests that the institutional structure in which civil servants worked entrenched this position regardless of the sense it made for transaction cost minimisation in organising services. The central state institutions worked thorough selection mechanisms at entry and through

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promotion to entrench this viewpoint. In recruitment, emphasis was put on recruiting officials at a young age after university and schooling them in the ways of the Civil Service throughout their career. This feature is confirmed by numerous studies. In the 1970s Heclo and Wildavsky found Civil Servants to be a tight knit group working together over a long period of time (Heclo and Wildavsky 1981). A study of Permanent Secretaries, the most senior grade, in 1980 and 1993 found that, on average each had worked in the Civil Service for thirty years prior to appointment at the top job (Theakston 1995:37).

Within the service, policy work was seen as the way to get promoted and the main business of the top of the service. Policy work was valued because it involved innovation and often entailed working in small staff units in close proximity to political power sources, such as ministerial private offices. In contrast hands on management work was disliked because it involved the routine implementation of procedures and the monitoring and direction of junior staff. Management work often entailed working in a large, extended hierarchy rather than small staff units and tended to consist of work at the point of delivery, remote from political power sources. Although the term management is sometimes used in a broad sense to mean strategic, innovative work, these activities are policy work by the definition developed here. Senior civil servants saw it as their job to act in an overall supervisory role in running public services, as in the public interest model. But they did not see their job as spending much time in hands on management of these activities.

Senior civil servants themselves acknowledged their liking for policy work rather than management work. Sir Robert Armstrong, a former Cabinet Secretary and Head of the Civil Service, commented on senior officials' continued interest in policy work despite the attempts of reforms to increase the profile of management tasks (Hennessy 1990: 737-738). The most systematic part of the 1988 Efficiency Unit Report's evidence was the 150 interviews with senior officials and ministers and further group interviews with around 85 senior officials (Efficiency Unit 1988:33-34). The Report stated 'Many people commented to us that too few senior civil servants showed the qualities of leadership which would be expected from top managers in organisations outside the Civil Service' (Efficiency Unit 1988:24).
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Officials demonstrated similar attitudes five years after Next Steps began. A survey of officials in the top three grades and fast-stream entrants at lower grades found that the interesting nature of strategic work was one of the aspects of their jobs which they liked the most (Efficiency Unit 1993: 105-8).

Whilst officials' statements might not be taken at face value, there appears to be corroborating evidence. The choice of career path involves an opportunity cost to officials of forgone alternative, which is not something that is present in interview evidence, and makes the evidence more reliable. The 1988 Efficiency Unit Report noted that 'The business of top managers in many departments is still dominated by the policy and political support tasks' (Efficiency Unit 1988:24). Numerous academic studies have found that policy jobs were valued by officials and brought about promotion. For example, three quarters of the Permanent Secretaries in 1980 and 1993 had worked in ministers' private offices, which was a key policy job given to potential 'high flyers' expected to get to the top of the Service during their careers (Theakston 1995:37-43). A study by Zifcak which examined civil servants' attitudes to the FMI found civil servants happy to run large organisations but at the same time reluctant to get involved in management. He quoted a Deputy Secretary to illustrate this finding who said, 'Management is a tiresome business, nobody goes into it unless they have to.' (Zifcak 1994:40). A later survey of civil servants backed up this finding, remarking on a continued disinclination to acquire management skills (Efficiency Unit 1993: 105-8).

Instead of simply undertaking transaction cost minimisation in an unbiased way, as in the public interest model, the mark II bureau-shaping model suggests that officials' views of their role acted as a lens through which this process was conducted. The model explores the organisation of a department in terms of the levels of executive activity and policy work which the department conducts itself, relative to that which it passes on to other bodies to carry out. Executive activity involves the implementation of public policy through administrative structures and procedures. The level of executive activity is measured by the core budget per senior official. The core budget is defined, as in earlier chapters, as the part of a bureau's budget which is spent on running costs and includes the cost of administrative structures such as offices, machinery and staff. This activity is

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something that officials handled to satisfy their aim of running public services on behalf of ministers, but they did not associate this task with having to do day to day management of this activity. They were not conscientious in the operation of ad hoc monitoring and control systems. The discussion of organisational control in Section One in Chapter One suggests that these systems are the main way integrated organisations are run. Instead, officials preferred to spend their time on policy work, setting the aims of public services, evaluating implementation structures and proposing new structures. Bureaucrats preferred a larger proportion of policy work time in total work time, and by implication the lower the proportion of management work time.

The preferences of an individual official for organisation of his or her department is shown in Figure 7.2 at the end of this chapter. The formal mark II bureau-shaping model is presented in Appendix 10. In Figure 7.2, each indifference curve links equally preferred organisational configurations, the slope of each curve representing the rate of substitution required between levels of core budget per senior bureaucrat (X) and proportion of policy work time in total work time (Y) to maintain an equally preferred combination. The curves are convex to the origin because a diminishing marginal rate of substitution between X and Y is assumed. At high levels of core budget per senior bureaucrat officials require more additional core budget per senior bureaucrat to compensate for the loss of a unit of policy work time than at low levels of core budget per senior bureaucrat. The curves are ranked in order of preference with curves furthest from the origin representing more preferred combinations (U3 preferred to U2 preferred to U1 in Figure 7.2). The model does not suggest that individual officials sat down and drew figures similar to those in Figure 7.2, rather that the model captures the underlying structure of their preferences and the situation in which they found themselves.

This part of the model has been criticised by Marsh Smith and Richards for having similar failings to the Dunleavy model, especially for arguing that civil servants benefited from the agency reform and political leadership was unimportant (Marsh Smith and Richards 2000:476-477). However, this critique fails to recognise sufficiently that the mark II model was developed as a critique of the existing bureau-shaping model to include the role of politicians in the reform. The

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model recognises that civil servants were not the only ones involved in deciding the organisation of service delivery. Their freedom to chose any combination, which would have tended towards greater amounts of policy work time and larger core budget levels, was limited by politicians' views about what was an efficient combination of activities.

Politicians' position was closer to the public interest model than civil servants, because the institutional structure in which they operated made them more responsive to the public. However, their understanding of how to go about organising the public sector was not as sophisticated as suggested in the public interest model. Their view can be characterised as the position that higher levels of core budget per senior bureaucrat imply greater need to spend time on ad hoc monitoring of activities within the organisation, and less time on policy work in the organisation. There was strong evidence that governments in the 1980s became more concerned about the performance of civil service management in a more sustained way than in earlier periods. This is expressed schematically as a movement of the politicians' constraint on organisation from 1 to 2 in Figure 7.3 at the end of this chapter. The change represents an increase in the proportion of management work time for each unit of core budget per senior bureaucrat demanded of officials

The change in politicians' attitudes has been called the 'rise of neo-Taylorism' by Pollitt (1993: 53). Neo-Taylorism is the view that efficiency is improved by using modern technology to increase the monitoring of the use of resources, especially the achievements of individual employees, and by rewarding employees in accordance with their performance. This position flowed from the findings of the many Efficiency Unit encouraged scrutinies conducted in the 1980s, which formed the background to the 1988 Report. Whilst scrutinies were mostly carried out by officials, the Efficiency Unit was headed by non-civil servants, firstly Raynor from ICI then Ibbs from Marks and Spencer. The scrutinies opened the lid on civil service activities, 'getting down to where the work is done' and 'reporting direct to ministers' (Lord President of the Council 1981:2). They revealed the problems of management to serving ministers, bypassing the civil service hierarchy. A senior minister, Michael Heseltine,

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commented in 1987 'When the literacies of the Civil Service and the generalities of intention are turned into targets which can be monitored and costed, when information is conveyed in columns instead of screeds, then objectives become clear and progress towards them becomes measurable and far more likely'. (Pollitt 1993: 58). However, it was less clear that beyond the general concern with a lack of monitoring politicians had a solution. Politicians had supported FMI in the early 1980s which sought to improve management information and allocate responsibility for performance within integrated organisations (Zifcak 1994). This reform was an alternative to the Next Steps model of passing on responsibility for executive tasks to agencies

However, faced with the changed constraints, senior officials preferred to hand over executive work to agencies rather than become hands on managers as under the FMI plan. Some authors have suggested that ministers also preferred the agency model to FMI type schemes because they thought it was a way of escaping blame for operational failures (Marsh Smith and Richards 2000:471). However, Dowding points out that ministers have not generally resigned because of operational failings. In his study of the period 1945-91, he found ministers resigned in only 15 per cent of cases where there were serious demands from the press and MPs for them to step down (Dowding 1995:163-165). Dowding made no distinction between policy and operational issues, so the percentage of resignations relating to tasks that were passed to agencies was even lower.

More fundamentally, there were good reasons to think that the move to agency status did not insulate politicians from dissatisfaction because they were still going to be held responsible for service delivery overall. After all, politicians were associated with setting up the agency structures in the first place, or condoned their continued use. If an agency failed it was a politician that was responsible for using the agency form and performance problems were still ultimately their responsibility. Ministers' serious cause for concern with agencies, outlined in Chapter Five, in part reflected criticism they were receiving for poor overall performance of the structures. In the case of the Benefits Agency, the Department and the Agency appeared together before the various parliamentary committees to explain problems, as discussed in Section Three of Chapter Three. In the case of the

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Prison Service, there was pressure on the Home Secretary to resign, and performance issues were compounded by further difficulties of separating out policy from implementation, as discussed in Chapter Three.

The main aim of politicians seemed to be improving public services. The push towards 'Next Steps' as a delivery structure was in large part a response from the civil service to pressure from politicians for more attention to be paid to managing services to improve their performance. This statement does not imply that all civil servants thought this way, or that there were not debates amongst officials as to whether the agency model would enable them to keep control over policy relating to the services but, at the same time, pass on responsibility for management to agencies. In this context, the observation that civil servants in the DSS were slow to react to the original Efficiency Unit report (Marsh, Smith and Richards 2000:471) is unsurprising. Debates occurred and it is the overall preponderance of action that is shown by the change in individual officials' ideal points in Figure 7.3.

The situation before the change in politicians' constraint is shown by line 1 where officials prefer point A to other possible positions. However, after the constraint shifted to line 2, making A unobtainable, officials preferred point C to the alternative point B. The point B represents the alternative of keeping activities in house and senior officials becoming hands on managers. Developing the top management information systems as part of the FMI would have been one such reform. The Next Steps idea was acceptable to politicians, because it fitted their objectives. But the organisational form was brought about by officials because it fitted with their view of the best organisation. These officials were important in the reform because they were responsible for identifying and setting up agencies.

The cases of pure and mitigated agencification are represented as a bureau-shaping strategy entailing the changes from X1 to X2 and Y1 to Y2 in Figure 7.3. The changes represent passing senior officials passing on responsibility for executive activity to agencies and concentrating on policy work instead. This change required individual senior officials to act together to bring about the necessary alterations. The strategies discussed by Dunleavy imply that individual

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bureaucrats incur both costs and benefits from pursuing them (Dunleavy 1991:205), which present potential collective action problems because the strategies are public goods for officials. The strategies produce non-rival benefits that are consumed by an individual official without implying a reduction in benefits received by other officials in the organisation. It is also difficult to exclude non-contributors from consuming the benefits, because all the officials in the 'shaped' departmental organisation receive the benefits. Public goods tend to lead to free riders who seek to benefit without contributing to costs, which may result in the good not being provided at all.

The model developed here suggests that the strategies did not incur great costs for senior officials. Politicians set the range of possible combinations of core budget per senior bureaucrat and proportion of policy work time and were indifferent between these points. Officials did not incur high costs in persuading politicians to sanction a change involving a move between these combinations and needed only to perceive their common interest in order for bureau-shaping strategies to occur. Senior officials were in close contact with each other so it was easy for them to communicate ideas and get an impression of what was going on in the system, as part of the debates that Marsh, Smith and Richards noted (2000)

However, the mark II model has been criticised by John. He acknowledges that 'some of the limitations of Dunleavy's formulation are overcome in James' [1995a;1995b] reconstruction of the model' but that 'James argues rather than shows that civil servants bureau-shaped in response to the managerialism of the 1980s' (John 1998:133-136). However, John's critique refers to early work presenting the critique of the Dunleavy model and the bare bones of an alternative formulation rather than the more substantial empirical evaluation presented here. The purpose of the model constructed here is to outline the main factors involved in the reform. More detailed aspects of the reform in particular instances clearly require further explanation, invoking the role of individuals and particular institutions in particular cases. John further argues in opposition to the model that 'It is just as likely that they [senior officials] would have supported the reforms whether managerialism had been introduced or not' (John 1998:133-136). This critique provides some support for the model because it implicitly accepts that

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mannaigerialism, in the sense of politicians' interest in civil servants' monitoring of execcuutive activities, was becoming important in the 1980s. But John's critique also quesistiions why the reform happened in the 1980s. Dunleavy's original model did not r prrovide a clear rationale for the timing of the reform. However, in the mark II bureeaiu-shaping model, politicians triggered the changes. This aspect of the model helpps: explain why the central state resisted the use of structures that had found favoouir in the private sector much earlier, through the use of M rather than U forms as diiisscussed in Chapter Four. The mark II model suggests that bureau-shaping was a ressrpponse to politicians' demands, so there was a form of joint responsibility for the (oiutcome. The mark II model appears to be consistent with the processes invoblwed in establishing the Benefits Agency.

Examining the case of the Benefits Agency involves a consideration of agennc:ification throughout the Department of Social Security because of the interrrdlependence of the processes identified in Section One of Chapter Two. Most senidorr officials in the Department expected to find themselves located in the DSS Heaàdcquarters after the reform, carrying out favourably valued policy work tasks. By 19995,, out of 121 officials of Grades 1-5, 66, over half, worked in the DSS Heaàdcquarters (DSS HQ). There were 2,671 more junior staff in the DSS HQ. In conthtraast, 51 officials of Grades 1-5 worked in the DSS agencies, with 86,404 other staff iin these bodies (Cabinet Office 1995b:21 and 23). The figures show that the vast t bbulk of staff moved into agencies were less senior officials. However there weree, in 1995, 51 senior posts in the agencies. The most significant were the heads of thhe: agencies. The head of the Benefits Agency was a Grade 2, ITSA a Grade 3, Conhtrriibutions Agency a Grade 4, Child Support Agency a Grade 4, War Pensions Ageenccy a Grade 6 and the Resettlement Agency a Grade 6. Beyond these 6 posts, 42 oof˜ the 51 agency posts were at Grade 5, the least senior of the senior posts, leavirinjg just 3 non chief executive posts of Grade 1-4 in agencies (Cabinet Office 19955b).

The DSS itself was responsible for choosing agency candidates which could havee llead to delays if senior officials had objected to the reform. One commentator noteèd that 'The resistance to Next Steps is not however as strong amongst senior headddqluarters civil servants as could be expected' (Greer 1994:51). However, this is
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not a surprising if the reform is viewed as a bureau-shaping strategy. The Resettlement Agency was chosen as the first candidate by senior staff in early 1988. The creation of this body was mitigated agencification. The wider changes occurred later after the Hickey report discussed in Section One of Chapter Two. The depth of senior DSS officials' support for the agency form of organisation is further demonstrated by the similarity between Next Steps and their own suggested reforms before the publication of the Efficiency Unit report. An internal departmental report, produced in 1988, recommended setting up separate structures to handle the implementation of social security policy, which resembles the idea of executive agencies (Moodie et al 1988).

The enthusiasm for passing on responsibility for management to the Benefits Agency meant that the change was conducted without sufficient thought for the possible harmful effects of the agency model on performance, which came to pass, as discussed in Chapters Four and Five. Section Three of Chapter Four indicates that on some criteria, including the routine nature of much activity and the low level of parliamentary questions per £m of expenditure, the activities were consistent with use of the agency for transactions cost minimisation. However, the split between policy and implementation and system of performance measures did not cope with the activities and performance in important areas was poor. That civil servants and politicians did not sufficiently anticipate these problems appears, in part, because of their eagerness to pursue bureau-shaping strategies. They did not systematically evaluate the potential effect of the model and there were no pilot studies of its likely effects (I15 Senior Official, Benefits Agency).

The even more radical option of privatising the services by passing responsibility to a private firm acting under contract was considered but rejected at the time of setting up the Benefits Agency. Privatisation of the agency was again considered in 1995 during the review of the Agency's status but again rejected (I15 Senior Official, Benefits Agency). In terms of simple bureau-shaping motivations, either would have been acceptable to senior officials because both involved passing on activity to other organisations. However, the interviewee commented on concerns about using a contract for controlling the services provided by a private

firm, so transaction cost minimisation were mixed with officials' view of their policy role in the decision.

Moving beyond the general explanation offered by the mark II model, there were further factors which explain the detailed form the Agency took. The views of the Permanent Secretary were important in separating out the Benefits Agency to handle welfare payments from the Contributions Agency to handle collection of National Insurance contributions. But the more fundamental change was the movement of executive activities to the agencies as reflected in the model. This way of operating was continued with the creation of the Child Support Agency to handle a new function in which the agency form was chosen rather than the Headquarters delivering the service itself.

The process in the Benefits Agency has broader relevance because civil servants in other departments were in similar situations. Senior officials moved between departments; officials beyond the DSS were interested in its organisational structure because they might move to that department during their careers. DSS officials were similarly concerned with the organisation of other departments. These officials had a common view on their role as policy workers in departments, with agency organisation limited to areas of non-policy work. The senior civil service union, the First Division Association, did not oppose the reform (I1 Senior Official, Cabinet Office), but unions were not in any case the main way senior officials were able to influence the reform, they had more direct means in setting up candidates.

The common interests of the senior civil service were maintained in the 1994 Government White Paper on the future of the Civil Service which proposed setting up a new Senior Civil Service composed of officials of Grade 5 and above (Prime Minister et al 1994: 36). These officials were mainly concerned with policy work. The White Paper stated that 'The Government does not, however, envisage extending the formal establishment of agencies into areas of the Civil Service primarily concerned with policy... For day to day support for Ministers on policy matters, policy divisions on existing lines will continue to be the preferred model,

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adapted by departments as necessary to deal with changing workloads.' (Prime Minister et al 1994: 13).

However, 'Next Steps' was of varying significance across different departments, as the survey of agency creation in Chapter Two revealed. The creation of agencies was a major change in the DSS but was less significant in some other departments. But most senior officials ended up working in parent departments more often than agencies as a result of the changes. The location of senior officials in departments and agencies in 1995, after the bulk of the reform, is summarised in Table 7.1. In 13 of the 18 departments with agencies over 70 per cent of senior staff worked in the parent department. The Department for Education and the Welsh Office come out top in terms of percentage of senior staff in the parent department at 98 per cent, although these departments did not have many agencies.

The DSS was a highly agencified department where the reform was a significant change. In contrast, the Lord Chancellor's Department (LCD) was very different. Only three agencies were created. However, the agencies were largely responsible for executive tasks, in contrast to the LCD itself which is consistent with the account suggested here. The LCD was responsible for policy making and reforms to the civil law and civil courts and the overall direction of other policies including legal aid. Most senior staff were located in the LCD itself, 42 out of 72, or 58 per cent. This figure left a substantial portion in the agencies, most notably 23 in The Land Registry, with 5 in The Public Record Office and 2 in the Public Trust Office. However, of the 23 in the Land Registry, only 3 were above Grade 5 (Cabinet Office 1995b). In this department the lack of suitable executive work seems to have been the reason for less agencification. The availability of suitable functions seems to account for much of the variation in the use of agencies between departments, although in some cases agencies handled policy work and some explanation of this phenomenon is required.

Each of the LCD's agencies already had a significant degree of freedom before Next Steps, reflecting nominal agencification. The first agency to be set up was HM Land Registry, established in July 1990. This body was already a

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separate government department, a regulatory bureau responsible for maintaining and developing a stable and effective land registration system. The second agency, The Public Record Office, set up in April 1992, was already a separate government department, a delivery bureau responsible for safe keeping of records and making them available to the public. The third agency, The Public Trust Office, was set up in July 1994, was not a separate government department but was a trust corporation and an associated office rather than an integral part of the Department. The Office was a delivery bureau, carrying out administration of wills and property under certain circumstances, including cases of an individual's mental illness. Why so many cases of nominal agencification were part of the reform is not sufficiently explained by looking at senior officials preferences for organisation of delivery structures, other actors in the central state were important.

Table 7.1 Senior Staff (Grades 1-5) in Parent Departments, Agencies and Percentage of Senior Staff in the Parent Department in 1995

Department	Number of Senior Staff in Parent Department	Number of Senior Staff in Agencies	Percentage of Senior Staff in Parent Department
Ministry of Agriculture, Fisheries and Food	117	34	77 per cent
Cabinet Office including Office of Public Service and Science	102	41	71 per cent
Ministry of Defence	338	85	80 per cent
Department for Education	67	1	98 per cent
Employment Department Group	183	24	88 per cent
Department of the Environment	164	36	82 per cent
Department of Health	192	41	82 per cent
Home Office	113	87 (includes 69 at Grade 5)	57 per cent
Lord Chancellor's Department	42	30 (includes 25 at Grade 5)	58 per cent
National Heritage Department	23	4	85 per cent
Northern Ireland	18	9	67 per cent
Overseas Development Administration	43	4	91 per cent
Scottish Office	162	13	93 per cent
Department of Social Security	66	55 (includes 42 at Grade 5)	55 per cent
Department of Trade and Industry	231	76	75 per cent
Department of Transport	95	61 (includes 53 at Grade 5)	61 per cent
Treasury	103	39	73 per cent
Welsh Office	66	1	98 per cent

Source: Cabinet Office 1995b

Section Three: Officials and Politicians in Other Parts of the Central State

Other actors who were involved in the reform process were mainly located in one of two groups, as shown in Figure 7.1 at the end of this chapter. Firstly, people located in central units. Secondly, people in agency candidates. Officials in central units included people working in the Efficiency Unit, the Next Steps Project Team, the Cabinet Office more generally and HM Treasury. They had an interest in the organisation of the departments to which they might move later in their careers but worked in organisations with missions to improve Civil Service economy, efficiency and effectiveness. They gained career benefits from coming up with new successful reform initiatives and were important policy entrepreneurs. These units were described as 'ginger groups' and 'places for strategic thinking' by officials who worked in them (I1 Senior Official, Cabinet Office, I2 Senior Official, Cabinet Office). Departments did not invent the bureau-shaping technology of Next Steps, the central units were important in this process. However, the need for their reforms to be successfully implemented meant co-operating with the departments eventually tasked with putting them into practice. The requirement constrained the range of possible technologies that could be proposed by central units.

The idea of the Next Steps reform was proposed in the Efficiency Unit report. The team that wrote the report was a mix of central state outsiders and insiders, and most of the team were not working for the civil service by the mid 1990s (I1 Senior Official, Cabinet Office). At the time of the report the Unit was supervised by the Adviser to the Prime Minister on Efficiency, Sir Robin Ibbs. He was not a career civil servant, having spent much of his career in private industry at ICI, and had little reason to embark on bureau-shaping strategies. The choice of reform proposals was, however, limited by the need to take into account the wishes of officials in the bureaux affected to ensure that the reform chosen could be implemented successfully.

Efficiency Unit officials undertook extensive consultation with civil servants in the departments about possible reform options as part of their research for the report. Interviews were conducted with twenty six Permanent Secretaries or equivalents, twenty six Grade 2's, and group discussions held with Grade 3's and

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Grades 5-7 (Efficiency Unit, 1998: Annex C, pp. 33-4). The officials in the Efficiency Unit saw that Next Steps was more likely to be accepted than a reform forcing senior civil servants to increase their proportion of management work time. They learnt from the FMI that reforms in which senior officials became involved in hands-on management were previously greeted with hostility. Zifcak argues that his investigation of FMI supports a view advanced by Clive Ponting in 1989. 'Ponting argued that the continuing devotion of senior officials to advising ministers and developing policy doomed the FMI to fail as an exercise to turn senior civil servants into resource managers and directors of executive operations... The evidence in this survey suggests similarly that top management systems were given only passing attention in senior echelons.' (Zifcak, 1994). The Efficiency Unit report reached a similar conclusion. 'Our evidence suggests that Top Management Systems are seen as having more relevance in executive functions and in the regions, than in headquarters or policy functions.' (Efficiency Unit 1988 22). Instead the report suggested the creation of agencies to manage executive activity.

Officials in the Next Steps Project Team and the Cabinet Office were tasked with encouraging the reform and monitoring departments and applying pressure through officials and ministers where it was felt that a department was not setting up enough agencies. They reported directly to the Head of the Civil Service and the Prime Minister. The Next Steps Project Team was limited in its actions by the need to work with departments. The Project Team was too small to carry out the implementation of the reform itself, initially consisting of the Project Manager, Sir Peter Kemp, and three assistants. The need for the co-operation of departmental officials was noted by Diana Goldsworthy, a member of the Project Team. She commented that 'effective practical proposals for reform should originate from those who have responsibility for bringing them about, i.e. those working within the services concerned. Only in this way will those who are responsible for making these changes feel that they own them and are committed to them.' (Goldsworthy 1991)

The Project Team held regular meetings with departmental officials, intended to 'foster support for and a sense of purpose about Next Steps at a senior level', during implementation of the reform (Goldsworthy 1991: 22). The Project

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Team grew in size and drew on other Cabinet Office staff but was never more than a small group of 10-20 people. Staff in the unit had only an indirect interest in bureau-shaping strategies because their career prospects depended on the successful implementation of reform. They were more concerned with achieving targets for agency creation.

The 1988 Report suggested that 90 per cent of the service could be put into agencies. The Project Team interpreted this target as a rolling programme without a clear upper limit (Goldsworthy 1991:20). The first Project Manager, Peter Kemp, was constantly asked about progress towards targets and how much of the Civil Service could be put into agencies. In evidence to a Treasury and Civil Service Committee inquiry in 1989 he set an unofficial target that at least 20 agencies would be established by April 1990. As it turned out, 31 were established by this time and in June 1990 he stated that the Government expected at least half the Civil Service would be operating in agencies by the end of 1991 (Treasury and Civil Service Committee 1990:1). The interest in targets for numbers of agencies was reflected in the Project Manager's frequent appearance before the Treasury and Civil Service Committee to talk about progress. He appeared five times between the launch and June 1990, giving his targets for progress including that over three quarters of civil servants would end up in agencies.

Whilst he commented that 'setting up agencies was only the start' (Treasury and Civil Service Committee 1990:16-17), the Project Team did not take a great interest in the criteria departments used in selecting agency candidates. Goldsworthy commented that there were 'no absolute rules' and candidates were dealt with by departments 'pragmatically, case by case' (Goldswothy 1991:25). This lack of concern appears surprising from the public interest model, but not given the incentives of the Project Team. The finding that cases of nominal agencification were included in the official accounts of progress in the reform is consistent with the bureau-shaping model because it helped the central units, which collected the figures, appear successful in their mission to implement the reform. Similarly, as Chapter Two shows, the figures for staff in agencies were initially a disappointment for the unit, running at 36 per cent of total staff in 1991. However, the Project Manager was able to announce that over half the service was covered by

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the reform in 1992 by including civil servants operating in HM Customs and Excise and Inland Revenue who were operating on 'agency lines', although not being agencies in many other respects (Chancellor of the Duchy of Lancaster 1992:6).

A second group of officials were located in the Treasury and were responsible for co-ordinating budgetary and accounting systems in central government. The Treasury was historically a source of ideas about how to organise and control central government. The public expenditure surveys set up in the 1960s drew heavily on the experience of senior Treasury officials (Thain and Wright 1995). Their mission helps make the initial opposition of Treasury officials, which seems inconsistent with the public interest model, more understandable. The 'Next Steps' reform was not a Treasury idea, instead it arose from a competing source of reform ideas, the Efficiency Unit in the Cabinet Office. One official commented that the centre of government was always full of different new ideas about how to improve government (I3 Senior Official, Cabinet Office).

The reform initially appeared to make the Treasury's mission to control public expenditure more difficult because there was some uncertainty about how the model was to be incorporated in existing public expenditure control systems (IA1 Senior Official, Treasury). The Treasury's concerns resembled the hypotheses of the Niskanen budget/output maximising model outlined in Chapter Six, with the Treasury as the sponsor not knowing the cost curve of the bureau. However, the Treasury was eventually convinced by the Cabinet Office and others in central government that the necessary financial information on costs could be made a requirement of agencies before they were set up and that Treasury access would not be compromised (I1 Senior Official, Cabinet Office). The Treasury was able to enshrine these principles in a White Paper The Financing and Accountability of Next Steps Agencies, published in December 1989 and used by departments in setting up agencies (Treasury 1989). A similar logic was eventually accepted in a wider review of Treasury expenditure control across the central sate. Under the Treasury's own Fundamental Expenditure Review, the expenditure control system changed towards fewer, more strategic, bottom line controls on expenditure with more freedom for departments to use expenditure as they wished and carry over funds from one year to the next (Parry, Hood, James 1997).

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People working in agency candidates were also involved in the reform process. These officials were generally lower ranking than those in departments and central agencies. The preferences of senior officials suggests that they generally saw working in agencies as undesirable. In the case of the DSS, the agency chief executives were already in post in the sections which became the Contributions Agency and the Resettlement Agency, and as such were in the organisation which was deciding on the reform. However, they were not amongst the most senior people in the DSS and would have had difficulty in opposing the reform, had they been minded to do so.

In other cases the chief executives of agencies came from outside and were unable to influence the agency creation process. The chief executive of the Benefits Agency came from local government and the Child Support Agency's first head came from the voluntary sector. The role of more junior staff in agency candidates during the 'Next Steps' reform appears to have been limited. The unions were consulted in the process of agency creation for particular agencies but did not have a major role in the reform (Goldsworthy 1991:16). The Civil and Public Servants Association were not hostile to the reform, but the National Union of Civil and Public Servants did oppose the change. Partly because of the splits between the unions, and partly because of their reduced influence in the 1980s, the unions were not able to mount a campaign against the agency initiative. An illustration of the weakening of unions is the reduction of time the DSS allowed union representatives to work on union business. In 1990 the 90 union representatives could spend all their time on union business, this was cut to 50 per cent of time by the mid 1990s, with the rest being spent on official DSS duties (Greer 1994: 54).

However, the opposition of a major union does suggest that the agency initiative was not seen as benefiting more junior officials. But junior officials were not successful in mobilising wider public support against the reform. The Treasury and Civil Service Committee and Public Accounts Committee took an interest in issues raised by evidence from unions, but their concerns centred on the implications for accountability to Parliament. The former committee noted that its role was primarily monitoring rather than initiating or opposing change. In the end,

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the committee broadly supported the initiative (Treasury and Civil Service Committee 1990: v).

However, some groups of officials in potential agency candidates were able to see benefits from the reform, setting up pull as well as push factors in the agency creation process. The pull forces were particularly strong cases where the officials did not feel themselves to be part of the mainstream career civil service, and did not share the view of their role defined in Section Two. These groups included professionals, such as scientists working in research and consultancy activities, and other officials with sector specific skills, including information technology staff. Whilst a complex set of factors was at work in each case of agency creation, these pull factors seem to help explain the use of agencies for some non-routine policy activities which were inconsistent with the public interest model.

In the DSS, the clearest example of 'pull' factors contributing to the creation of an agency was the Information Technology Services Agency. The agency was an example of mitigated agencification. The head of the computer section of the DSS was a key figure in the report team which recommended the establishment of the agency. One of the key arguments for setting up ITSA was the distinctiveness of IT staff (Greer 1994:33). These staff were different from other civil servants and part of an IT labour market which cut across the standard civil service career structure, with people moving in and out of government and widespread use of private contractors. The IT staff wanted more freedom to develop their specific skills (I1 Senior Official, Cabinet Office). ITSA was able to make use of freedoms to group staff by function and respond flexibly in pay and conditions to recruit and keep IT staff (ITSA 1996:20).

Conclusion

The mark II bureau-shaping model contrasts with the public interest model, as summarised in Table 7.2. The mark II bureau-shaping model stresses the role of intra-state processes in bringing about agencification. This chapter suggests that bureau-shaping model's hypotheses receive better support than equivalent hypotheses derived from the public interest model. Hypothesis one suggests that

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key groups of officials were involved in the reform and that the state was not a unitary actor. Each of these groups had a different view of how to deliberate about transaction costs. Hypothesis two suggests that officials in the Efficiency Unit and Project Team were able to provide senior officials in the departments with a bureau-shaping solution to the problem facing them as a result of politicians' demands for more attention to be paid to managing activities. The result was a push to set up agencies. Most senior officials ended up working in departments rather than agencies, with a mean figure of around 70 per cent of each departments' senior officials located in the department after the reform. In most cases junior officials were unable to oppose the reform. On occasions there was inappropriate agency creation contributing to performance problems, as in the case of the Benefits Agency.

The official classification of nominal agencification as part of the reform alongside more significant changes was partly the result of the Next Steps Project Team's keenness to present a 'successful' reform, in terms of targets for agencies created and staff working in agencies. The Unit appeared less interested in whether departments were using the right criteria in matching activities to the agency form than in hitting its targets. In some cases, officials in agency candidates welcomed the opportunity to develop their own careers separate from the civil service mainstream, setting up pull factors, for example contributing to the creation of the Information Technology Services Agency in the DSS. This factor seems to help explain why some research and consultancy, non-routine policy activities were put into agencies.

Table 7.2 Hypotheses Drawn from the Public Interest Model and Mark II Bureau-shaping Model

Part of Model	Public Interest Model	Mark II Bureau-shaping Model
One (process of reform)	1) Pure and mitigated agencification was conducted by a unitary central state seeking to deliberate and minimise transaction costs	1) Pure and mitigated agencification was conducted by a fragmented central state. The deliberation about transaction cost was conditioned by entrepreneurial actors in central units producing innovative organisational solutions acceptable to departmental officials concerned to protect career policy roles and peripheral groups of officials seeking to develop separate careers from the mainstream civil service
Two (rationale for reform)	2)Transaction costs changed in the 1980s or the state's deliberations were brought up to date in this period triggering pure and mitigated agencification for 'executive' rather than 'policy' activity. Transaction costs were unchanged in cases of nominal agencification 3)Agencies performance was in keeping with the expectations of transaction cost analysis in terms of economy, efficiency and effectiveness and they performed better than alternative forms of organisation	2) Managerialism involved politicians reassessing transaction costs and becoming more concerned with more attention needing to be paid to management of executive activities triggering pure and mitigated agencification as bureau-shaping strategies, leading to some inappropriate agency creation. Nominal agencification was the result of central units' eagerness to pursue successful reforms 3) Agencies performance was partially consistent with the expectations of transaction cost analysis in terms of economy, efficiency and effectiveness but, in cases of inappropriate use of the model, performance was not as good as that expected by the public interest model

Source: Section Two of Chapter Four and Chapter Seven

Figure 7.1 Institutions and Actors in the Central State Involved in the Agency Reform 1988-1992
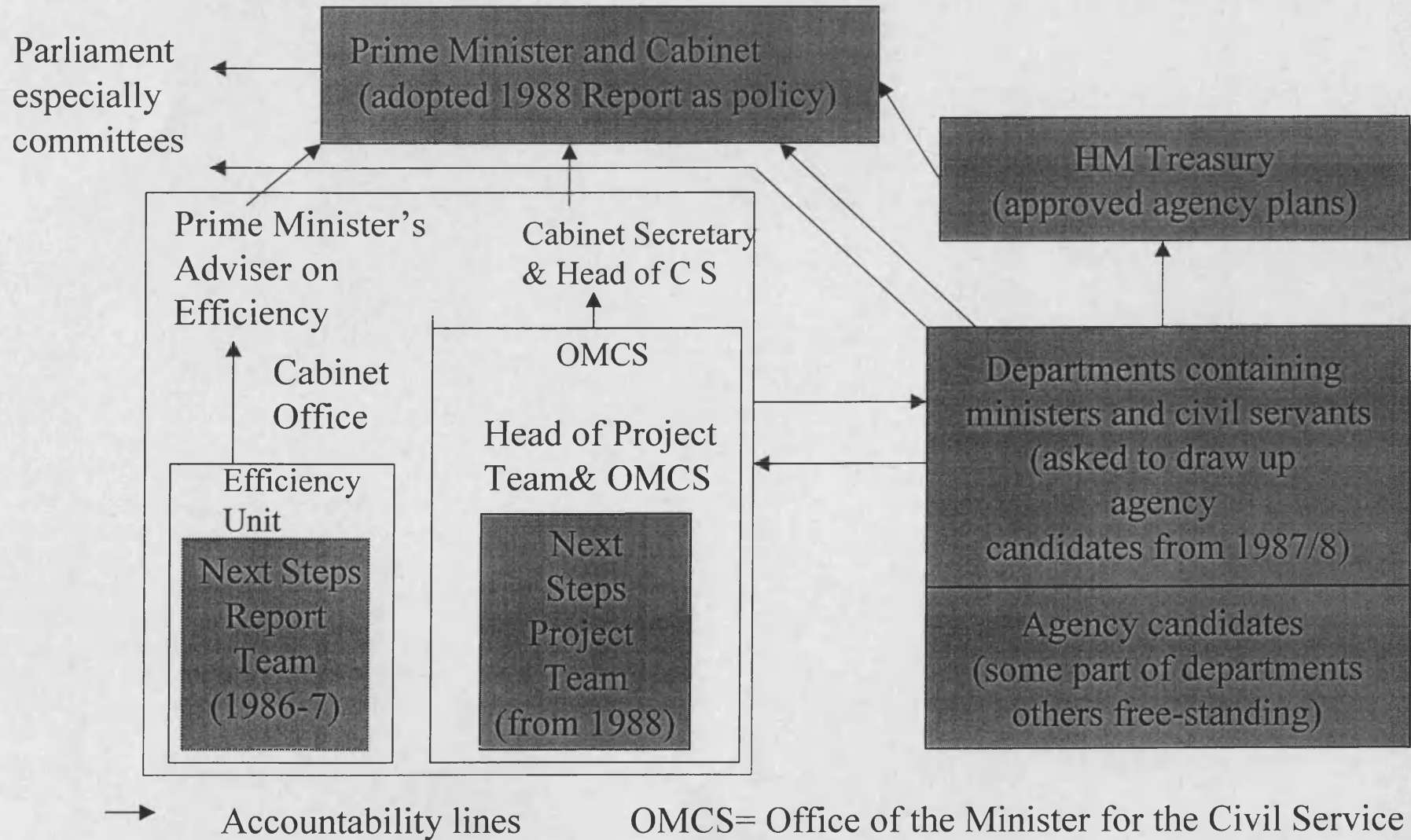
Parliament especially committees

Prime Minister and Cabinet (adopted 1988 Report as policy)

HM Treasury (approved agency plans)

Prime Minister's Adviser on Efficiency

Cabinet Secretary & Head of C S

Cabinet Office

OMCS

Efficiency Unit

Head of Project Team& OMCS

Next Steps Report Team (1986-7)

Next Steps Project Team (from 1988)

Departments containing ministers and civil servants (asked to draw up agency candidates from 1987/8)

Agency candidates (some part of departments others free-standing)

→ Accountability lines   OMCS= Office of the Minister for the Civil Service

Figure 7.2 A Senior Official's Preferences for the Organisation of the Bureau

Y= Policy work time in total work time

U3

U2

U1

X=Core budget per senior official
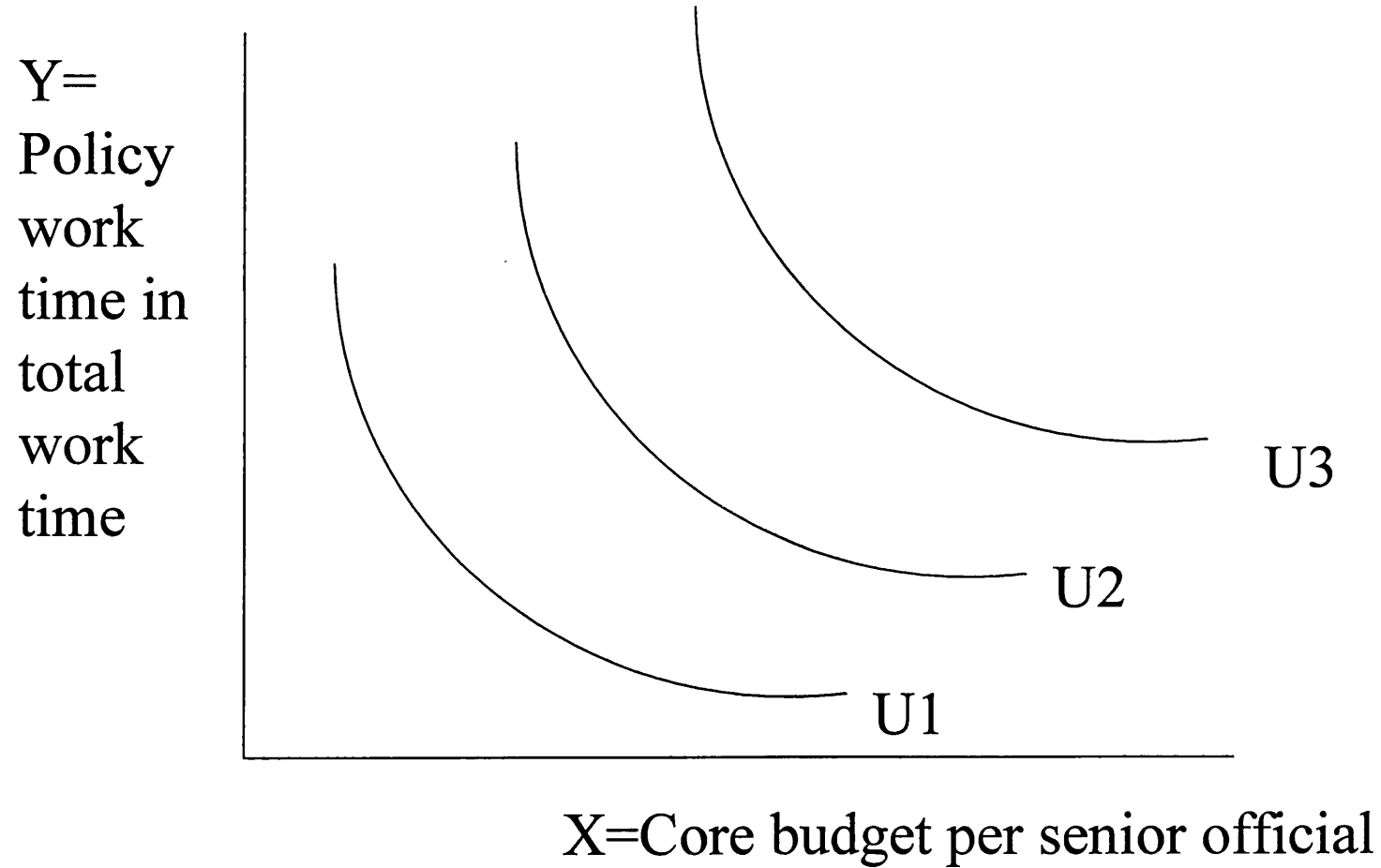
Figure 7.3 A Senior Official Maximising Welfare Under Time Budget Constraint

Y, Proportion of policy work time

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Y1

A

X1

X, Core budget per senior bureaucrat
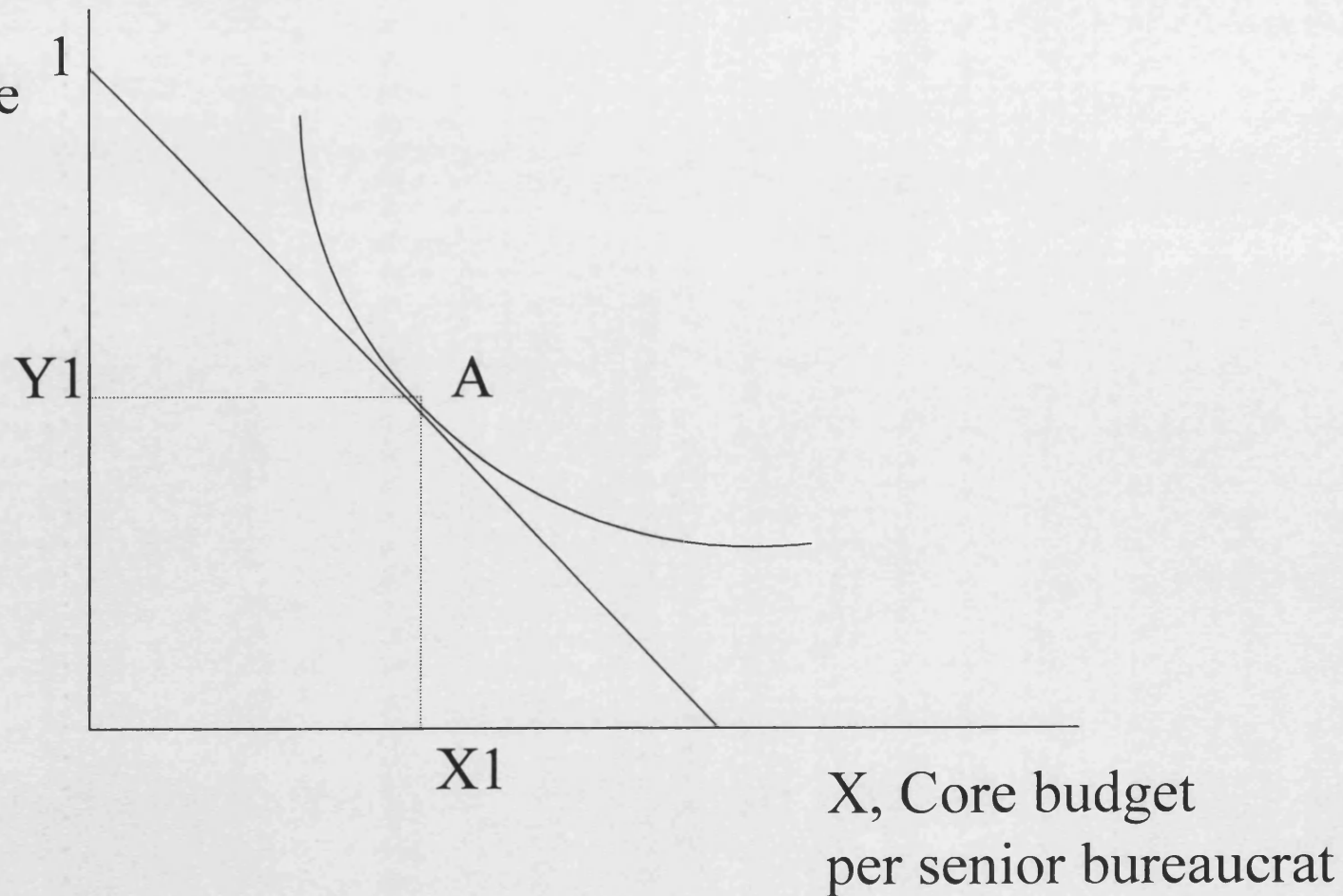
Figure 7.4 Shift in Politicians' Constraint and Change in Preferred Organisational Form

Y= Policy work time in total work time

Y2

C

Y1

A

1

Line 2

B

Line 1

X2

X1

X, Core budget per senior official
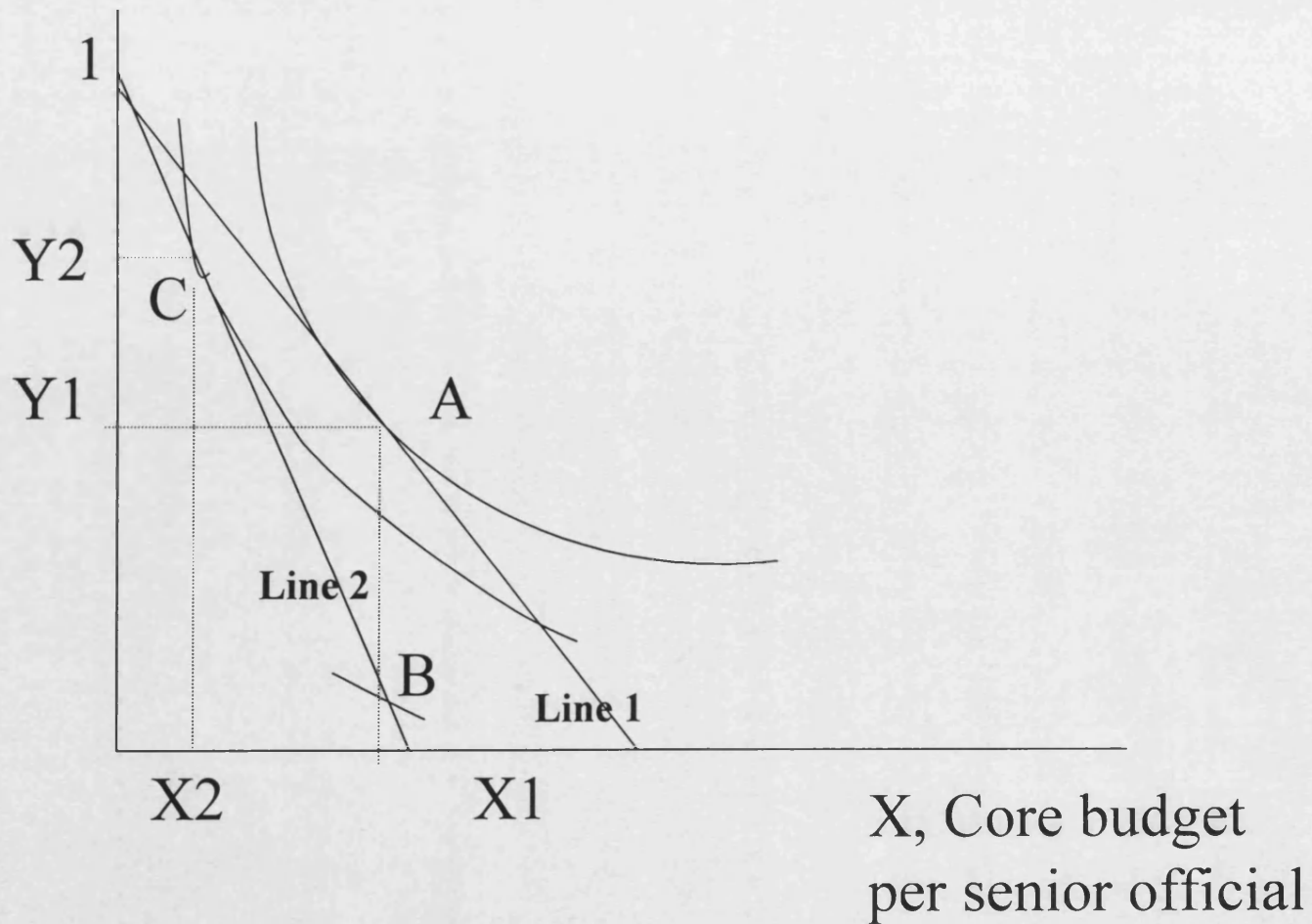
Part Three: The Future of Agencies

Chapter 8: Likely Futures for the Agency Model

'Great gains in public sector management have come from definition of task and delegation of management and the Government is determined that these are not lost. However, this concentration on specific tasks has sometimes distracted attention from the wider general objectives of government and people. The Government wants to give more attention to the coherence of policy across institutional boundaries...to operate in a joined up way.' (Minister for the Cabinet Office 1999:1)

The public interest model and the mark II bureau-shaping model have expectations about the likely future use of the agency model and agencification processes. The hypotheses are summarised in Table 8.1. New initiatives during the latter part of the period 1988-1998 give some indication of which model best captures future reform processes and which reforms are most likely to emerge. Section One examines closing implementation gaps in use of the agency model and making minor adjustments to improve the operation of agencies. Section Two looks at the use of alternative forms of control in a way largely consistent with continued use of the agency model. Section Three looks at more radical changes involving dismantling the agency model.

Section One: More and Better Use of the Agency Model

The public interest model suggests more use of the model where appropriate for handling executive activity. The mark II bureau-shaping model suggests further implementation so long as politicians keep up managerial pressure for more attention to be paid to delivering services. Both expect efforts to close implementation gaps, where agency systems were not fully established, and refinement of agency systems. Both suggest that the scope for future agencification will be limited by the increasing scarcity of executive activity suitable for being passed on to agencies. However, the mark II bureau-shaping model suggests continued agencification because of bureau-shaping strategies by officials, pressure from central units and pull factors from groups desiring more autonomy, which may lead to less suitable use of the agency model.

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Table 8.1 The Public Interest Model and Mark II Bureau-shaping Model: Basis of Models and Hypotheses About Future Developments

	Public Interest Model	Mark II Bureau-shaping Model
a) Basis of Model		
	Adjustment of structures through deliberation and minimisation transaction costs to ensure economy, efficiency and effectiveness of public services	Adjustments through deliberation about transaction costs conducted by a fragmented central state with entrepreneurial actors in central units producing innovative organisational solutions acceptable to departmental officials concerned to protect career policy roles and peripheral groups of officials seeking to develop separate careers from the mainstream civil service
b) Possible Future Developments		
More and better use of the agency model	Changing transaction costs trigger further changes or no change if they remain stable. Any 'mistakes' in allocation of tasks are rectified with agencies used for 'executive' activity rather than 'policy' activity with moves to close implementation gaps from the earlier period	Unless politicians reverse managerialism, the use of agencies will be stable and there will be some moves to close implementation gaps
Use of other control forms to complement agency working	Agencies' performance is in keeping with the expectations of transaction cost analysis in terms of economy, efficiency and effectiveness and they perform better than alternative forms of organisation so little likelihood of 'unnecessary' extra control forms	Agencies performance is partially consistent with the expectations of transaction cost analysis in terms of economy, efficiency and effectiveness but, in cases of inappropriate use of the model, performance is not as good as the expectations of the public interest model. These factors, combined with entrepreneurial activity by actors in central units, makes the use of extra control forms very likely
Dismantling the agency model	Little likelihood of reversing the agency model, unless transaction costs change or in cases of inappropriate initial use of the model	Very poor agency performance in some cases may lead ministers to rethink managerialism and prefer hands on management to the agency model

Source: Section Two of Chapter Four and Chapter Seven

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At the end of the period 1988-1998 departments continued to implement the agency reform. In the second half of 1998 there were 19 candidates for agency status, employing 36,275 staff (Cabinet Office 1998:62). There were innovations that built on the initial agency model and the logic underlying it. There were several initiatives to improve the relationships between departments and agencies to maintain ministerial control but improve management flexibilities. The 1991 Fraser Report argued for a single senior figure within the department as the principal source of advice for the minister and point of contact for the agency (Efficiency Unit 1991:18). This person became known as the 'Fraser figure'. In a review of the operation of this system, Trosa found that he or she was often unable to devote enough time to monitoring the agency or representing its interests to the department (Trosa 1994:6). Trosa suggested strengthening the role of the Fraser figure, as a go-between for the agency and department and possibly an advocate for the agency, but this recommendation was not accepted by the Office of Public Service which felt it might interfere with ministerial control of agencies (Next Steps Team 1995:14-16).

There were attempts to improve the advice for ministers in their task of regulating agencies. One initiative was use of Ministerial Advisory Boards (MABs). The boards advised ministers on target setting and monitoring of the agency. They arose from the Fraser Report of 1991 which suggested that ministers needed more assistance in performing this activity (Next Steps Team 1995b:30-31). MABs included both executive members of agency management, civil servants from the departments and non executive directors, often with a private sector background. However, MABs evolved without a central direction and there was considerable variety in their use. In about 40 per cent of cases MABs performed the role outlined above, but in other cases the board was more integrated into the agency as an internal management tool (Trosa 1994:23). The Trosa report suggested that MABs should be extended to all departments and the proportion of outsiders should be increased to one third, partly to increase their independence from agency management (Trosa 1994:19-22). The review of strategic management of agencies found MABs more effective than Fraser figures where a wide range of skills were needed to set targets for the agency

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(Next Steps Team 1995: 16-21). Out of 72 agencies surveyed in 1997 47 had MABs. There was no clear relationship between MABs and better performance in terms of economy, with a similar proportion of agencies experiencing budget falls with and without MABs (Appendix 7).

The case of the Benefits Agency shows that the initiatives did not always achieve the desired results. The Agency did not have a Fraser figure. The DSS as a whole did not use a Fraser figure for any of its agencies (Next Steps Team 1995:17-18). Instead, the Benefits Agency Management Team ran the Agency, with the Chief Executive having a seat on the Departmental Management Board. In the initial stages of Agency operation the Management Board was something of a 'talking shop' and the BA mostly ran itself. However, the problems of maintaining departmental control over the agency led the Headquarters to use the Departmental Management Board more from the mid 1990s (I13 Senior Official, Benefits Agency). None of the officials interviewed in the Agency or Department side felt use of a Fraser figure or an advisory board would have made much difference to the performance of the Agency (I13,Senior Official, Benefits Agency; I14 Senior Official, Department of Social Security; I15 Senior Official, Benefits Agency).

There were attempts to improve the operation of performance targets. The review of the strategic management of agencies suggested best practice in the aims of target setting, but at the same time indicated some of the problems seemingly embedded in the very idea of setting targets. One aim was to keep the focus of agency performance targets reasonably stable over time, with increases in the difficulty of the target each year to stretch the agency. But this aim conflicted with changing the target's focus if it was found to conflict with other objectives or needed to reflect changes in the aims of the agency (Next Steps Team 1995:38-45).

The Benefits Agency's performance target regime was strengthened by bolstering the systems for monitoring performance against targets. More resources were put into establishing central teams to collect date on payment accuracy for benefits rather than relying on information collected by districts
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(NAO 1998b:49). From 1997-98 the funding of an area became dependent on their recorded workload, so Internal Audit checks were increased. The internal audit unit concluded that for 1996-97 and 1997-98 only a limited assurance could be given in respect of the integrity and reliability of performance data. In 1996-1997 there were doubts about whether one of the Secretary of State's targets had been reached, for Income Support clearance time. In 1997-98 the validation processes by internal audit meant that unvalidated data for Express Family credit could not be used towards achieving the target and it had to be reported as not achieved for that year in the Annual Report (NAO 1998b:52-3).

There was greater independence for performance checkers through separating out the Internal Audit Unit from other parts of the Agency. An Agency Audit Committee, chaired by one of the agency's non-executive directors, oversaw the Unit and a Corporate Director of Internal Audit, based outside the Agency in the Department HQ oversaw activities. These groups and individuals reported to the Department Audit Committee, again chaired by a non-executive director (NAO 1998b:58). However, NAO recommended that the mechanisms were still not independent enough from the Agency and the Departmental Accounting Officer, and that a fully independent agent was required, although the agent should be able to draw on internal audit work. The Committee of Public Accounts agreed with this position (PAC 2000:Sec 8). However, the Treasury did not require such external validation, although it suggested that on occasion a minister may require it (NAO 1998b: Appendix 6). In this sense, the logic of external checking of performance was not fully developed

There were changes in the targets to try and avoid the displacement effect of concentrating on certain targets to the detriment of other work. In 1998 the Department of Social Security reviewed the Benefits Agency targets planned for 1999. As a result, the Agency's external targets were reduced to concentrate on five accuracy targets and two financial recovery targets, partly in an admission of poor performance in these areas. New targets were set for anti-fraud work. These were laid down in the document Safeguarding Social Security published in 1999 (DSS 1999b). An overall aim was to reduce programme losses in Income

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Support and Job Seeker's Allowance by 30 per cent by 2007 with at least 10 per cent by 2002 (DSS 1999b:4). This change meant that some benefits were no longer covered, clearance times were de-emphasised and the targets did not cover efficiency or some aspects of customer satisfaction. The NAO recommended more use of composite targets based on several other targets (NAO 1998b:38-40). This system gave some flexibility to trade off target achievement. However not all targets were pursued at once. The experience in BA suggested that when one area of work was prioritised, other areas tended to suffer and it was not possible to concentrate on all areas at once because this diluted effort. One response to this problem was that the Agency put the targets that had been relatively downgraded on an informal 'care and maintenance' basis, attempting to avoid deterioration in performance but focusing management attention on the new prioritised targets (I13 Senior Official, Benefits Agency).

The effectiveness of the tweaks to the agency model were reviewed in a number of studies, for example those undertaken by Trosa (1995) and the report on the Strategic Management of Agencies (Next Steps Team 1995). The studies found that some of the changes were overcoming teething problems. However, more serious problems with the agency model remained unresolved and did not seem amenable to minor reforms. In the Benefits Agency, the changes in use of the Management Board, performance target setting and monitoring were not enough to satisfy ministers that the Agency could be controlled using the model (I14 Senior Official, Department of Social Security; I15 Senior Official, Benefits Agency). The problems of performance led to pressure building for more radical changes as outlined in Sections Two and Three, which appear more likely to develop in the future.

Section Two: Use of Other Control Forms to Complement Agency Working

The public interest model suggests that, where used appropriately, the agency model should be sufficient to deliver public services in an economic, efficient and effective way and that the use of other control forms is unnecessary. However, the mark II bureau-shaping model suggests that performance problems associated with agencies, and the presence of officials in central units with

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incentives to come up with innovative solutions to these problems, will lead to new initiatives. There were indications that additional initiatives, broadly compatible with the agency model, were emerging in the period. The main emerging solutions were increased use of private sector firms for certain chunks of activity and more regulation by bodies other than the parent department.

The increased use of private sector firms arose as part of the Competing for Quality initiative, which was called market testing from 1986 to 1992. This initiative covered all central government and was not focused specifically on agencies. However, it became increasingly about agencies' activities as the proportion of central government tasks run by agencies rose over the period. The reform was developed by the Treasury, consistent with the mark II bureau-shaping model's emphasis on this organisation as one of the sources of innovation in public sector reform. The reform encouraged the evaluation of service delivery arrangements in central government against several options. These were the abolition of the service, privatisation, strategic contracting out where private sector bids were invited but not bids from existing public providers, and market testing where bids from the existing public provider were evaluated against other bids (Efficiency Unit 1996:2). The reform was similar to the prior options review of agencies carried out as part of an agency review.

Each department put forward a programme of activities including those handled by agencies. Whilst individual agencies were responsible for identifying bits of work to subject to the competing for quality examination, the initiative had a strong central push from the Cabinet Office. Agencies felt under pressure to comply with the initiative (Mellon 1993; Price Waterhouse 1994). In this sense the reform came close to a violation of the agency principle of delegation of responsibility to agencies, but ultimately central targets for individual agencies were not set.

Calculations from figures contained in a review of the initiative reveal that about £39m was subject to market testing each year between 1986-1991. Under competing for quality, initiated after a substantial number of agencies had been created, this figure rose to £659m for 1992-1995 (Efficiency Unit 1996:93-

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94). The range of services covered expanded from ancillary support such as catering and cleaning to a wider range of services including professional and white collar services although these were still in the support services category and included estate management and IT support (Efficiency Unit 1996:4). The initiative was described as giving agencies an extra push to improve performance, efficiency in particular (I3 Senior Official, Cabinet Office)

In terms of effects, the Efficiency Unit estimated savings net of the costs of organising the process of between 13 and 18 per cent of the pre test cost. However some smaller agencies felt that the costs of organising tests for small packages of services were too high relative to savings. In order to run the initiative many departments and agencies set up central units (Efficiency Unit 1996:29,35). In this sense, the agency initiative made Competing for Quality more costly to implement because of the fragmentation of services into separate agencies made the packages smaller and lead to a multiplication of these units. The effects on quality were mixed with users divided near equally on whether services had improved with a third feeling there had been no change (Efficiency Unit 1996:14,21). On a crude measure, these lower cost and on average stable quality estimates suggest that efficiency did rise. However, the processes tended to concentrate on small packages of existing work rather than involving redesign of activities or attempts to work across organisational boundaries. Whilst a supplement to the performance target setting regime, Competing for Quality was not a replacement for it.

There was additional regulation of agencies by bodies other than the parent department. These bodies include the Cabinet Office, Treasury and National Audit Office, and specialist regulators. These changes were part of a broader growth in regulatory systems focusing on standard setting, monitoring and enforcement of performance standards in central government in the 1980s and 1990s (Hood and James 1997, Hood et al 1999, Hood, James, Scott 2000). In some senses the regulatory developments conflicted with the idea of giving agencies as much freedom from system wide rules as possible, but overall the regulatory developments went with the grain of the fragmented structures rather

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than seeking to reverse the organisational separation set in train by the agency reform.

The Cabinet Office introduced a number of performance systems of agencies. Some of these had a mandatory element and were directly regulatory, others relied more on exhortation to adopt them. Under the Citizen's Charter pubic service bodies, including agencies, were required to develop standards for services, monitor performance against them and raise their performance if it was unacceptable. Taking the benefits Agency case as an example, the standards were introduced in 1993 and were self set by the Agency in consultation with the Department and the Citizen's Charter Unit (NAO 1998b:43). The group in the agency responsible for developing Secretary of State's targets and management targets incorporated these targets in Agency planning and ensured that the other targets were consistent with the requirements of the Citizen's Charter Unit, which was renamed the Service First Unit in 1998 (NAO 1998b:37).

The standards were supposed to be linked to existing performance systems, so they went with the grain of the agency system (IA9 Senior Official, Cabinet Office). However they toughened up the regime for the Agency. One interviewee commented that the Unit was able to block proposals by the Agency if it felt they were lowering standards (I13 Senior Official, Benefits Agency). For example, some Agency targets were set to cover 60-70 per cent of customers. But the Service First recommendation was that the quality of service should be achievable for 100 per cent of clients. To fulfil this requirement, on performance at the time, the Agency had to lower the standard set to raise percentage of clients covered (NAO 1998b:44).

The Cabinet Office encouraged agencies to gain accreditation under the Investors in People scheme, requiring them to demonstrate training for employees and development of their skills. The Cabinet Office announced that by the year 2000 all civil servants should be working in organisations with accreditation. By 1998, 32 agencies had been fully accredited and more were expected to undergo the process (Cabinet Office 1998:8-9). By April 1999 all Benefits Agency staff worked in units recognised by Investors in People (DSS

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1999:57). The Charter Unit in the Cabinet Office developed its own, public sector wide, quality recognition system, the Charter Mark scheme. Under the scheme, agencies were encouraged to apply for external assessment and recognition of quality services focused on the customer. Winners had to provide evidence that they performed well on the principles of the Citizen's Charter, which included publishing explicit standards, being open to customers, offering choice, operating in a courteous and helpful way, redressing complaints and providing value for money. They also had to show improvement over time. In the first three years of the scheme from January 1992 to the end of 1994, sections of 15 agencies received the Charter Mark (Chancellor of the Duchy of Lancaster 1994: ii-iii). This figure had risen to 49 by 1995 (Next Steps Team 1996: 17), 71 by the end of 1996 (Next Steps Team 1997:12), 91 by the end of 1997 (Next Steps Team 1998:14)

The Cabinet Office also encouraged participation in comparative quality systems using benchmarking of agency performance against each other and the private sector organisations. The benchmarking scheme was announced in October 1995 by the Cabinet Office and run by the British Quality Foundation who used the Business Excellence Model to measure agencies against standards. The schemes were voluntary for agencies and they undertook self assessment rather than external assessment. After the first phase of 30 agencies in 1995-6, a second phase ran from April 1997 to January 1998 which included over 100 government organisations including 70 agencies and a third phase was introduced to run for three years from 1998 (Samuels 1998:12).

Benchmarking was intended to assist agencies to learn from best practice in other organisations and it was hoped that comparisons between bodies might create peer pressure to drive up performance (Samuels 1997:3). The experience of agencies in the pilot exercise suggested that they did feel lessons could be learned from other bodies (Samuels 20-22). The Benefits Agency was closely involved in using the Business Excellence Model and participated in the pilot scheme in 1996. The commitment of senior staff was demonstrated by the Chief Executive Peter Mathison's membership of the governing board of the European Quality Foundation as a representative of the public sector (Social Security
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Committee 1998: Q153). However, an analysis of a summary of the 30 improvement plans resulting from the BEM process in the agencies (Samuels 1997: Annex C) revealed that two thirds of the improvements were focused on changes to internal processes, with one third including an element of external relations with customers or other stakeholders. The focus on external clients was more apparent in trading agencies than other types of agency. However, because the scheme was voluntary it is less likely to lead to resolution of externalities between agencies and other bodies which were not in the interests of any individual agency to solve by themselves.

The National Audit Office, reporting to and funded by Parliament, was an important regulatory of agencies. Whilst the resources devoted to financial audit were largely static, there were more value for money studies conducted in the 1990s than in the 1980s (Hood et al 1999). These studies by and large did not focus directly on performance of agencies. However, there were some studies of agencies, especially in cases of poor performance, for example in the Benefits Agency. The NAO conducted reports on the Agency's assessment of performance against targets and exposed cases of poor performance (NAO 1998b). The NAO saw the Agency as an important area for value for money investigation in the late 1990s (I5 Senior Official, National Audit Office; I12 Senior Official, National Audit Office).

The Benefits Agency developed its own internal quality systems in response to the growth in external regulatory systems. In response to the inaccuracies in Income Support, the IS Accuracy Project was set up in 1993. In 1997 the project was renamed the Benefits Accuracy project with a wider remit to cover Jobseeker's Allowance and Incapacity Benefit which were also seen as having high levels of inaccuracy (Benefits Agency 1999a). The Project led to a Quality Support team, established in 1994. This team monitored local performance twice a year and was a central unit separate from staff carrying out administration of benefit, although staff previously worked in benefits administration. In this sense it was intermediate between external regulation and internal management within the Agency. The quality support system was itself

then open to review by the NAO and the BA internal auditors (Benefits Agency 1999).

The Benefits Agency was subject to more regulation than most agencies because a new regulator was established devoted to monitoring the Agency and bodies working with the body. The Benefit Fraud Inspectorate (BFI) was launched in November 1997 to provide independent assurance about social security systems in central and local government amid widespread concern about the high levels of fraud in the social security system (Secretary of State for Social Security and Chief Secretary to the Treasury 1999:22). The BFI cost £6.5m to run in 1998/99 and employed 133 staff, a substantial investment in additional regulation. The BFI was formally part of the DSS but independent of those responsible for administering benefits and reported direct to the Secretary of State. It operated under the Social Security Administration (Fraud) Act 1997 (BFI 1999d:Sec 1). The motivation behind setting up the inspectorate was in large part the DSS HQ staff's feeling that the BA was not able to deal with the problem of fraud by itself and that the HQ needed more information about the agency and levers to influence performance. The agency model was not by itself providing effective enough control systems (I11 Senior Official, Department of Social Security).

The BFI carried out inspections of the BA, other agencies and local authorities and made recommendations. In its first inspection of the Benefits Agency, 30 BFI staff visited 20 sites in the London South Directorate of the BA (AD3), 2 Benefit Centres and BA Central Services over an 8 week period. The report attempted to highlight better ways of working in the allocation of National Insurance numbers, in part to help the CA and improvements to Income Support processing to help LAs with Housing Benefit processing (BFI 1999a). The aim of the inspection and subsequent report was to get the BA to make the improvements. The BFI followed up the report to check that the situation has been improved. The BFI also attempted to improve joint working across organisational boundaries. It disseminated good practice across DSS agencies and LAs which might not otherwise get distributed across organisational

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boundaries and set up seminars involving BA and LA staff to encourage exchange of ideas (BFI 1999d: Sec. 2).

The initiatives to complement agency working lend further support to the mark II bureau-shaping model which suggests that performance problems present opportunities to entrepreneurial officials in central units. They did seem to mitigate some of the problems of performance with agencies whilst at the same time not reversing the agency reform. However, in some cases of more severe under performance, including that of the Benefits Agency, the mark II bureau-shaping model suggests more radical solutions are likely to develop.

Section Three: Dismantling the Use of the Agency Model

The dismantling of the agency model involves the most radical form of change, the main alternatives are abolishing the activities, moving them to the private sector in some form or reintegrating them into a department. Such changes are suggested by the public interest model only where the agency form is used inappropriately or where transaction costs change. The mark II bureau-shaping model suggests that poor performance will be tolerated by senior officials if the alternative is senior officials taking over management themselves. However, if the alternative is privatisation, these officials do not object because it does not involve them getting involved in hands on management. In some cases privatisation is a course of action reinforced by pull factors from officials in non-mainstream civil service careers seeking to increase their autonomy. The mark II bureau-shaping model suggests that only in cases of very severe under performance of agencies will ministers question the agency model as a way of promoting managerialism.

Radical departures from the use of the agency model were rare in the period, but there were changes, as summarised in Table 8.2. The most extreme alternative was abolishing an agency, as happened to the DSS's Resettlement Agency in 1996. However this change was not because of problems with the model, but rather that the agency had completed its task of handing over responsibility for running homes to local authorities and other bodies. There were
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several mergers and rationalisations of agencies. The mergers reflected the departmental focus of reform highlighted in the mark II bureau-shaping model, with mergers between agencies within departments rather than between agencies of different departments. An example was the creation of the Defence Evaluation and Research Agency of 11,248 staff from the merger of the Defence Research Agency of (8,770), the Chemical and Biological Defence Establishment (620) and the Defence Operational Analysis Centre (160). The primary reason for the creation of the agency, according to the chief executive, was to gain from 'economies of scale' (Talbot 1996:42). The agency model was retained for the relationship between the agency and the department.

Another radical change to status was privatisation of agencies, where ownership was passed to the private sector or provision of the service was passed to a private company under contract. Initially the government claimed that the agency initiative was not intended as a prelude to privatisation. However, the 1993 Next Steps Review announced that agencies were all potential candidates for privatisation. In total, 11 agencies were privatised and 2 agencies had their functions contracted out over the period. Most of the privatised agencies retained government as one of their major customers. In some cases 'pull' factors based on the desires of staff in agencies were important in privatisation. For example Chessington Computer Centre was sold to a consortium including management and employee teams (Appendix 11). The changes in these agencies nearly always involved considerable input from the staff in the agency (I1 Senior Official, Cabinet Office).

There were few attempts at reintegrating agencies back into departments. By 1998 there had only been one clear case of full re-integration, the Securities Facilities Executive Agency. However, in some areas the boundaries between ministerial responsibility and agency responsibility were clarified. A high profile example was the clarification of the Home Secretary's role in relationship to the Prison Service agency, which was a matter of dispute between Derek Lewis and Michael Howard. Under an internal review of the management of the Prison Service the Home Secretary became more closely involved in reviewing performance and the Framework Document altered to outline reporting to

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ministers more clearly. This change followed on from the Home Secretary rather than the Chief Executive answering Parliamentary Questions about the Agency (Prison Service 1998:27)

Table 8.2 Changes to Agencies' Status 1988-1998

Type of Change	Number	Example
Privatisation	11	HMSO sold to the National Publishing Group in Sept 1996
Complete contracting out of functions	2	National Physical Laboratory's functions contracted out to Serco in Oct. 1995
Mergers and rationalisations	5	Defence Evaluation and Research Agency formed from merging three agencies in April 1995
Abolition of functions	1	Resettlement Agency abolished in March 1996
Change of status	1	Historic Royal Palaces became an NDPB in April 1998
Functions transferred back to the department	1	Security Facilities Executive Agency functions moved back into the Cabinet Office in July 1998

Source: Appendix 11

By 1998, there was increasing recognition that the agency model and the wider structure of central government, as traditionally organised, did not always allow co-ordination of activities across separate bodies. Government thinking was turning towards some of the problems of the system, but there were few concrete policy proposals. The Modernising Government White Paper published in March 1999 recognised the importance of 'joined-up' government, focusing on policy and implementation solutions regardless of organisational boundaries (Prime Minister and Minister for the Cabinet Office 1999). Similarly, the Cabinet Office Performance and Innovation Unit (PIU) found problems with the treatment of 'cross-cutting' issues in the setting overall policy objectives, through target setting and implementation (PIU 2000).

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The White Paper suggested more 'joined-up' working so that organisations' performance regimes should take into account the effects of their actions on other bodies. Improvements were needed to bring all the information, regardless of which organisation collected to assist policy makers. The PIU report crystallised thinking from the late 1990s and emphasised joint management teams with shared performance aims and evaluation systems and joint budgeting arrangements (PIU 2000: Sec 4). Two central funds were established to promote co-operative working between departments and agencies. The £230m per year Invest to Save budget funded innovative projects involving two or more departments and the £2,500m Capital Modernisation Fund was awarded in part to encourage joint projects (PIU 2000: Box 9.1). The PIU report was anxious to stress that the cross-cutting approach should be balanced against the merits of traditional structures but did not go very far in developing the conditions under which one method was more appropriate than the other (PIU 2000: 1.3).

There were attempts to improve joint working predating the White Paper. There was more joined up performance appraisal and budgeting under the Public Service Agreements (PSAs) which arose from the Comprehensive Spending Reviews of 1998. The Comprehensive Spending Reviews were conducted for different sectors of central government. PSAs were intended to integrate target setting in different areas under an overall umbrella, setting out some departmental outputs and the funding allocated to them (Chief Secretary to the Treasury 1998:1-3). The PSAs were public documents, like the agency performance targets. Departments had to report progress to the Ministerial Committee on Public Services and Public Expenditure (PSX) (PIU 2000:7.18). But the first batch of PSAs was modest in the extent to which they joined up performance systems. There were 28 PSAs based on departmental boundaries with only three cross cutting PSAs in criminal justice, drugs and help for young families with 50 targets which are held jointly by two or more departments out of several hundred (PIU 2000: Box 9.1).

The effect of PSAs was to integrate agency performance plans within a broader system of plans spanning central government. The Benefits Agency performance target systems were increasingly integrated into systems for other parts of government, to try and improve the treatment of joint working. The Agency's targets were incorporated in a DSS Public Service Agreement and an Output and Performance Analysis statement published in March 1999 (PAC 2000:Sec.5). The BA instituted a new Performance Management Regime from April 2000 to take account of this development (DSS 1999:57). This reduced the tendency of the BA systems to focus attention on an overly narrow conception of the organisation's activities (I14 Senior Official, Department of Social Security).

There were further attempts to link up departments' activities by integrating civil service careers. Initially, there was concern about reduced staff movement between agencies and departments. The Trosa Report found that, in general, arrangements for this kind of transfer had not been thought out and that moving to an agency was not thought to be advantageous to civil servants' careers (Trosa 1994:48-49). There were attempts to integrate careers linking senior staff in different departments. The Senior Civil Service was set up in 1996 to encourage civil servants to take a broader perspective than the department or agency in which they were working. But this reform had limited success. The PIU found that it was hard to get people to move across departments. The percentage of staff moving on loan outside their own department was just under 5 per cent in 1995/6, and had risen to only just under 7 per cent by 1997/8 (PIU 2000: Figure 8.2). The report suggested trying to get a 'critical mass' of civil servants with experience of working in other organisations in the civil service and beyond as soon as possible.

To strengthen linked careers and encourage a corporate identity for the service, a Civil Service Management Committee, later renamed the Management Board, was set up in February 1999 (PIU 2000:4.11). The top 600 postings were more actively managed by the Board as part of this process. The importance of career progression involving experience in a variety of settings was emphasised by the Performance and Innovation Unit (PIU 2000: Sec 1.5). This principle was reiterated by Sir Richard Wilson in his report to the Prime Minister on Civil

Service reform. He said that, in order to reach the Senior Civil Service, people should have experience in working in frontline delivery or operational management and of working in more than one culture (Wilson 1999: Sec 16).An attempt to improve mobility was the proposal to set up an electronic marketplace for vacancies by June 2000 (Wilson 1999:Sec 16). However, by the end of the 1990s, these moves were being discussed as possibilities rather than being put into practice.

The implications of 'joined-up' working were greatest for agencies involved in working with other bodies for large parts of their work, in complex tasks where specifying targets for executive activity was difficult, and where encouraging direct responsiveness to customers through trading relationships was not possible. The Benefits Agency was one of these bodies. The initial response to the problems of joined-up working in the Agency was muted. The BA could not embark on short term solutions, in part because of resource constraints imposed by financial targets (I13 Senior Official, Benefits Agency). However, from the mid 1990s the BA planned to link the Housing Benefit and Council Tax computer systems in the Agency and local authorities. In November 1998, the Affinity consortium was selected to carry forward this work. In the short term the BA provided local authorities with remote access terminals so that they could read relevant files on its computer system. The partial 'solution' in the end came from the Department not the Agency, a recognition that the Agency did not have the incentives to solve the problem (I5 Senior Official, National Audit Office). The Department offered terminals to all 409 local authorities and over 350 applied for them, by the end of January 1999 171 terminals were operating. However the systems were limited and did not enable the local authority to correct any errors on these files or update them. There were attempts to match data on different computer systems to expose cases of fraud and error. By the end of 1998 this service was in operation in over 300 local authorities. The data matching scheme was, however, a small scale operation resulting in savings of £13m to 1999, a small proportion of total losses (NAO 1999a:30-32).

The Benefits Agency strengthened its Service Level Agreements with local authorities to try and improve liaison, particularly in the administration of

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Housing Benefit. Service Level Agreements were made mandatory for Benefits Agency district managers (DSS 1999:24). Another attempt to improve joint working was the active, modern, service project which was launched in December 1997 (DSS 1999:41). As part of this initiative projects were set up to work more closely with local authorities. For example, schemes were established with the London Boroughs of Lewisham and Camden involving the BA and the Information Technology Services Agency, which provided IT support. In Camden, lone parents were offered a single point of call for electronic claims for Income Support, Child Support and Housing Benefit. In Lewisham the Benefits Agency worked with the local authority to complete a combined Income Support and Housing Benefit and Council Tax benefit form (DSS 1999:26). These schemes were cited by the Department of Social Security in response to the criticisms in NAO reports about the lack of joined up work (DSS 1999:40-41).

There were more radical changes to the Benefits Agency being planned at in 1998. The broad thrust of the proposal was to link Benefits Agency working with other bodies. The Single Work Focused Gateway, announced in September 1998, and later renamed ONE, brought together the Employment Service, Benefits Agency, Child Support Agency, local authorities and other welfare providers to provide a more coherent service for claimants. The idea was to give a claimant a personal adviser to take their details and assess employment, benefit and training options from an initial 'start-up meeting'. The personal advisor called on a team of experts to provide advice to claimants and brought these organisations services together to focus on the needs of the claimant.

The ONE projects were cited as examples of joined-up government in action in the Modernising Government White Paper. However, this style of working initially covered only a small part of the BA's work. There were 12 ONE pilots from June 1999 (DSS 1999:11-12). In funding these pilots, £79.5m came from the Treasury 'Invest to Save' budget out of the total of £112m for all 12 pilots (Social Security Committee 1999: Para. 1). The pilots were co-ordinated by a partnership of departments with a Project Board answerable to a joint ministerial group. Management of the field was by traditional lines within the BA through a series of district, area and regional offices. Relations between

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organisations were generally semi-contractual at the top, and by liaison at the delivery level, with stronger links between BA and Employment Service in the area of Jobseeker's Allowance. However, the ONE pilot projects were managed through Project Management Groups at regional level bringing BA, Employment Service and local authorities together to manage the pilots in their region. Each individual pilot was headed by a single manager who was drawn from one of the partner organisations and who oversaw a mixed team of BA, Employment Service and local authority staff (PIU 2000: 10.11). There were two variants of joint working in ONE, the first using call centres the second using private and voluntary sector bodies in the provision of services, for example coaching for interviews, customer inquiries about benefit (Social Security Committee 1999:Para. 10).

However, several difficulties of joint working under the agency system emerged during the projects, which point to potential pressures for reforms to the agency model. The different target regimes set for the agencies meant that it was difficult to set targets for the pilots. No new targets were formally set, which makes evaluation of the pilots more difficult. The Social Security Committee expressed concern that the job placement target would be too crude to measure the outcomes and that clearer assessment of the quality of advice about benefits be undertaken (Social Security Committee 1999: paras 68 and 70). The different target regimes affected the styles of working which often clashed. Local authorities were felt to be more 'can do' and focused on solving clients' problems whereas the Agency style was more 'hierarchical' (Social Security Committee 1999: para. 41). This hierarchical approach was partly because of a concern to meet management targets linked to the external accountability structures of the agency.

Differences in personnel systems between the Benefits Agency and other bodies caused problems. Each agency involved in the joint working had its own pay banding and promotion structure. Staff from the Employment Service, Benefits Agency, Child Support Agency and local authorities were asked to apply for start up adviser and personal adviser posts in the pilot areas. ONE posts were assessed as broadly equivalent to the executive officer post but people from

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different agencies remained on their 'home agency' terms. These agencies also had different priorities and managerial and disciplinary systems. The Implementing Managers were spending three-quarters of their time on sorting out these staffing issues (Social Security Committee 1999: paras 34 and 35). Another barrier to joint working was variety in IT systems. The main operational support was provided by the existing Labour Market System used by the Employment Service, OpStrat used in the Benefits Agency combined with a new Gateway Enquiry System. DfEE and DSS were exploring the possibilities of using small scale developmental IT prototypes, for example in Lewisham, to make better use of integrated IT (Social Security Committee 1999: para. 44), but these were at an early stage.

Finally, the initiative was largely centrally driven by DSS and the Department for Education and Employment. The Local Government Association and the Convention of Scottish Local Authorities complained that they were brought into the process too late to contribute sufficiently to the project planning and that local authorities were not allowed to become leaders on the project (Social Security Committee 1999: paras 38 and 39). Local authorities were not involved as lead commissioning bodies in the initial pilots to involve private and voluntary sector organisations, the central government agencies did not want to lose control over the projects (Social Security Committee 1999: paras 38 and 39).

The problems with the Benefits Agency seemed to be creating pressure for some aspects of the agency mode to be de-emphasised. Reforms were being discussed to stress flexibility of staff movement between bodies, joint management boards, and targets which were not narrowly focused on the organisation's own tasks (I15 Senior Official, Benefits Agency). There were proposals to move back some of the functions given to the Agency to the Department of Social Security to enable the Department to develop strategic policy more effectively. The split between specifying policy and implementing it in a separate agency was under threat with proposals to establish an 'agency' of working age to deal with clients of this type and an 'agency' of pensionable age to deal with pensioners. These bodies, whilst called 'agencies', were intended to have 'seamless' team working, with those developing policy also involved in

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specifying implementation systems and monitoring performance on the ground (I14 Senior Official, Department of Social Secutrity).

The severe and chronic performance problems of the Agency appeared to make ministers and senior officials lose trust in the agency model as a way of improving performance. The Labour administration elected in 1997 had a different agenda to the Conservatives, aiming to improve employability rather than concentrate on keeping down the cost of the welfare system. These more ambitious aims made the use of the agency model even more problematic than previously (I14 Senior Official, Department of Social Security; I15 Senior Official, Benefits Agency). Under these circumstances, the mark II bureau-shaping model and the public interest model both suggest possible reversal of use of the agency model. However, these plans were at an early stage at the end of the 1990s. There was little evidence of similar thinking in about the majority of agencies in other departments (I1 Senior Official, Cabinet Office). The performance of most agencies did not lead to severe ministerial dissatisfaction and the mark II bureau-shaping model suggests that reversal of the model is unlikely in these cases.

Conclusion

The attempts to combat some of the emerging problems with agency working give some indication that the mark II bureau-shaping model's expectations seem more likely to develop than those of the public interest model. The future is likely to vary between individual agencies, depending on the type of agency and its performance. Continued use of the model, with minor tweaking, is likely in cases where there are performance problems but these are not very severe. The findings from earlier chapters suggest this is likely to apply to the majority of agencies.

The mark II bureau-shaping model suggests that complementary reform initiatives are likely with officials in central units coming with new schemes and continued resistance to hands on management from senior departmental officials. The development of initiatives including the Competing for Quality/Market

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Testing scheme devised by the Treasury and the Charter Mark scheme devised by the Citizen's Charter Unit can be seen in this light. In the Benefits Agency, a regulatory solution was attempted, supplementing oversight of the agency by the department with monitoring by the Benefit Fraud Inspectorate.

More radical changes are less likely than minor reforms for most agencies, according to the mark II bureau-shaping model. However, in some cases, pull factors may contribute to continued privatisation of agencies. These factors are most important in agencies with staff who are not part of the mainstream civil service, for example those involved in specialist research and consultancy services. In cases of severe under performance other radical solutions may also be attempted. Whilst developments in the Benefits Agency were at a very early stage in the late 1990s, they did seem to point towards substantial changes in use of the model. The ONE pilots de-emphasised the corporate identity of the Agency by encouraging the adoption of similar pay and conditions and working practices to those used by other bodies. The reform proposals for the relationship between the Agency and the Department stressed a seamless link between policy development and implementation, de-emphasising organisational separation between the two bodies.

Chapter 9: Conclusion

The research provides answers to the three questions set out in the Introdduction. Section One examines conclusions relating to the first question: how did the creation of agencies, or agencification, work in the period and was the refform a substantial change? Section Two discusses conclusions relating to the seecond question: why was the reform adopted and did agencies bring about beneffitts in the delivery of services? Section Three looks at the conclusions relattimg to the third question: what is the likely course of future developments in the usse of agencies?

Sectioom One: The Agency Model was Widely Used and Mitigated Agemccification was Predominant in the Reform

The study reveals the way in which the agency model was used, including the pattttern across the central state and its use in the Benefits Agency, evaluating officiial claims that the reform was a major change. The agency model is defined in Chapter One as involving organisational separation between an agency and a departtmient with some autonomy for the agency and little or no ad hoc intervention by senior officials and ministers. There is regulation of the agency by the department, principally through a system of rule based output oriented performmance targets, with a chief executive to head the agency and account for performance. Four principle types of agency are identified based on distinguishing those that receive grants from those that receive funds through trading in markets and distinguishing those that use their budget on their own activities from those that pass their budget on to others. The four mutually exclusive and jointly exhaustive types formed from these two distinctions are the delivery, trading, contract/transfer and trading contract/transfer types.

The survey of agencies in Chapters Two and Three reveals that the UK central state made extensive use of the agency model in the period 1988 to 1998. Chapter Two shows that, over the period, 155 agencies were created. By 1998, 65 per cent of civil servants worked in 138 agencies. This finding suggests that the official accounts were correct in suggesting that the agency model was in

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widespread use in the UK central state. However, the picture in terms of agency creation processes is more variegated than the official version suggested.

The research reveals the variety of agencification processes. Four types of agencification are identified, pure agencification involving substantial change and dismantling of integrated structures, mitigated agencification involving substantial change to a unit with some separate identity, nominal agencification consisting of limited change and new function agencification where the activity was not previously performed. The so called 'Next Steps' reform was predominately mitigated agencification, where there was already some separation of activities prior to the reform. This type of agencification accounted for 69 per cent of cases. There was pure agencification in 14 per cent of cases, in which the reform was an even more significant reorganisation; the case of the Benefits Agency was an example of this form of agency creation. However, in 14 per cent of cases, there was nominal change and the reform was largely a relabelling exercise. New function agencification was found in only 2 per cent of cases.

Different types of agency emerged from these processes. Agencies were predominately of the delivery type, with 119 agencies or 77 per cent of this type, followed by the contract/transfer type with 20 agencies or 13 per cent, trading type with 15 agencies or 9 per cent and trading/contract/transfer with 1 agency. The contract/transfer type was the most significant in terms of staff, with around 40 per cent of civil servants, in part because the largest agency, the Benefits Agency, was of this type.

The practice of agency working reflected use of the core features of the model, as shown in Chapter Three. All agencies had organisational separation, some framework of flexibilities and regulation by their departments using performance targets and accountable chief executives. The agencies were incorporated into existing central state rules for public expenditure and accounting controls, which identified them to varying degrees as separate bodies. However, the practice of agency working was not always fully consistent with the model.

The Benefits Agency illustrated some of the difficulties in separating tasks between the department and agency and establishing a clear corporate identity for the agency, whilst at the same time continuing to allow departmental control of the organisation. There were disputes between the Department of Social Security Headquarters and the Benefits Agency about duplication of policy capacity within the Agency. The system of rule based controls through performance targets was incompletely implemented, with targets missing for some aims of the organisation and inaccurate measurement of performance in some areas.

Section Two: The Reform Reflected Bureau-shaping Motivations Rather than Straightforward Pursuit of the Public Interest

The institutional rational choice approach, through the bureau-shaping model, makes a substantial contribution to understanding why the reform occurred. The official justifications for the reform were fragmented and, at some points, inconsistent. Chapter Four constructs the public interest model to form a more coherent and complete justification for agencies based on the official view of the benefits of the reform principally contained in the 1988 Report. The public interest model suggests that senior officials and politicians had the goals of delivering public services in an efficient and effective manner with maximum economy, expressed through minimising transaction costs associated with delivering services. Agencies promoted this goal in handling routine, executive activities rather than non-routine, policy activities. The choice of agencies rather than other forms, including an integrated department or a contract with a private firm, was a way to minimise transaction costs.

However, the public interest model does not seem to be consistent with some aspects of agency creation, as revealed in Chapter Four. In particular, disputes between parts of the central state, the bracketing of nominal changes with more significant ones under the overall 'Next Steps' reform banner, and use of the agency model for non-routine policy work were inconsistent with the model. The performance of agencies did not match all the expectations of the public interest model, as shown in Chapter Five. Economy was not improved,
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instead the model was associated with real terms rises in central government administrative costs and total costs between 1988 and 1998.

However, there were improvements in running costs in the mature phase of the reform process at the end of the period once most agencies had been created. Total central government administrative expenditure fell in real terms by 4.8 per cent between 1995/96 and 1997/98. A survey of 72 agencies showed a fall of 4.6 per cent in their combined administrative costs in real terms over the same period. There were differences between the non-trading agencies, which showed a median fall of 5.3 per cent, and trading types, which showed a median rise of 8.2 per cent. This difference may have in part reflected trading agencies responding to consumers, as is suggested in the public interest model, and in this sense was not inconsistent with the model. The case of the Benefits Agency reflected the overall pattern for non trading types, real terms administrative spending falling in the period 1995/96 to 1997/98 by 4.4 per cent. But, in 1997/98, the Agency's administrative spending was 17 per cent higher than in the first year of agency working.

The lack of systematic data makes a fully comprehensive assessment of efficiency and effectiveness a difficult task. On a few key criteria, the majority of agencies appeared to perform reasonably consistently with the model's expectations. The survey of 72 agencies showed that 88 per cent were generally perceived by ministers to have performed satisfactorily. However, features of the model appeared to contribute to performance problems in the case of the Benefits Agency, as shown in Chapter Five. The organisational separation between the Agency and the Department Headquarters exacerbated the long running problem of policy being made without sufficient reference to the needs of implementation and, on occasion, there was poor communication between the two bodies. The performance target regime caused speed of clearance time to be prioritised over accuracy in the early 1990s, contributing to poor performance on accuracy of payments. The target system encouraged the Agency to focus on its own activities rather than joint working with other bodies, particularly contributing to difficulties in co-operating with local authorities in the delivery of Housing Benefit.

The research demonstrates that the insights of the bureau-shaping model can be used to help understand the reform. Chapter Six explores how the insights of institutional rational choice are used in Patrick Dunleavy's bureau-shaping model, but that the original model is inadequate for explaining the 'Next Steps' reform. The model is not clearly specified and does not include the relationship between politicians and senior officials or account for why the reform happened when it did rather than previously. The mark II model is developed in Chapter Seven to overcome the inadequacies of the original model.

The mark II bureau-shaping model is an important theoretical advance for understanding the reasons for the reform. The model appears to be consistent with evidence of the reform process during the period, as explored in Chapter Seven. A range of evidence is used for exploring the model, including official statements and interview material. However, unlike traditional public administration research, the methodological approach does not necessarily take this material at face value because it is potentially open to misrepresentation. Instead, the evidence is cross-checked using evidence of choices made by actors during the period and other data, including budget data.

The mark II bureau-shaping model is supported by evidence about developments during the period. Different groups of officials' institutional positions gave them different interests in the reform process. Senior officials in the departments saw their role primarily as policy work rather than the direct, hands on, management of executive activities. Senior officials' reluctance to work in agencies and in management positions, both before and after the agency reform, lends support to the model. Voting with their feet by officials indicated their motivations better than interview material by itself because of the potential for misrepresentation of the motive for action in such material. Senior officials' dislike of management work affected how they responded to politicians' demands for more attention to be paid to managing activities. Their institutional position enabled them to act together as a group to pursue their interests through bureau-shaping. In departments with agencies, 70 per cent of senior officials ended up working in the parent department after the creation of agencies.

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Entrepreneurial officials in the Cabinet Office Efficiency Unit had career incentives to come up with innovative organisational solutions to problems of public service delivery that were successfully implemented. They provided senior officials in departments with the agency model as a piece of bureau-shaping technology, enabling them to respond to politicians by passing on executive work to agencies. The agency model offered a new organisational from that would be accepted by officials in the departments who were responsible for implementing the reform. Once the reform was underway, the Next Steps Project Team was keen to promote the reform as a success. They included nominal agencifications and other bodies 'working on agency lines' in the totals for progress under the reform as well as cases where the reform was a more significant change.

Officials in agency candidates had different degrees of influence over the reform. Most junior officials were not a key part of the process, as was reflected in the weakness of unions in deciding on the changes. However, pull factors were important in agencies where staff did not see themselves as part of the mainstream Civil Service, helping to account for cases where non-routine, policy, work was transferred to an agency. These factors which promoted use of the form, even if it was not always appropriate. From this perspective, the performance problems, for example those associated with the case of the Benefits Agency, are consistent with the mark II bureau-shaping model.

Section Three: Widespread Use of the Agency Model is Likely to Continue with Radical Changes Only in Cases of Very Poorly Performing Agencies

The public interest model and the mark II bureau-shaping model suggest different ways in which the use of the agency model is likely to develop, as explored in Chapter Eight. The expectations are not greatly dissimilar because both models stress that reforms were undertaken, in part, to try and improve the economy, efficiency and effectiveness of public services. But the mark II bureau shaping model stresses the institutional position of different state actors in the process. The model suggests that bureau-shaping strategies will continue to be an important influence on the reform in the future as will entrepreneurial officials in

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central units who have incentives to come up with new mechanisms for improving public services.

The most likely future for most agencies appears to be continued use of the agency model with closure of implementation gaps. Likely changes in these agencies include refinements to performance target regimes and experimentation with alternative forms of department-agency relationship. The use of Ministerial Advisory Boards is a development consistent with the main features of the agency model and is likely to become more widespread, in part because several central unit reports have commented favourably on the operation of Boards.

These developments are likely to be supplemented by additional mechanisms in agencies with moderate performance problems. Some of these forms centre on ways for the agency to improve its own performance, for example the benchmarking scheme which was undertaken from the mid 1990s is likely to continue. In other cases there has been more use of external, regulatory, systems. The Benefit Fraud Inspectorate, set up to oversee the Benefits Agency and local authorities, is an example of a form that may be used in areas where departments' oversight needs to be supplemented by other bodies.

In a few cases of very poor performance more radical changes are more likely. Partial dismantling of the agency model may occur in the Benefits Agency. Organisational separation between the department and the agency and the performance target system have contributed to severe problems of performance. The agency systems have detrimentally affected joint working with local authorities and the achievement of certain of the Agency's own aims, particularly limiting fraud and error of payments. Whilst the proposed reforms are at an early stage, the long term viability of the agency model may be in doubt in this case.

Conclusion

Overall, the agency reform was a substantial organisational change but was more variegated than official accounts suggested, with mitigated

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agencification most significant and some nominal changes. The reform seems to have been brought about, in part, by bureau-shaping strategies by senior officials in departments combined with entrepreneurial behaviour by officials in central units. Whilst continued use of the agency model is likely in most cases of agency working, complimentary regulatory reforms and more radical dismantling of the model are likely in cases of very poor performance.

These findings have relevance beyond the UK because the agency model is a core NPM organisational form and agencification a core part of NPM reform processes. Increasing use of NPM forms has been identified in many countries and there are many countries with similar structures and processes (Hood 1994; Rhodes 1997; Pollitt et al 2000). However, the findings have most relevance for countries that have directly attempted to emulate UK central government's use of agencies. The Cabinet Office hosted delegations from several countries interested in looking at the 'Next Steps' reform (Goldsworthy 1991:i-ii). A few countries set up their own versions of agencies based on the UK experience (Pollitt et al: 2000). Focusing on two countries that emulated the UK, the US and Japan, illustrates how findings from this study can be used to sketch answers to three key research questions about NPM.

The first question is how did the creation of agencies, or agencification, work and was the reform a substantial change? The US Government developed Performance Based Organisations based on the UK reform. The head of the Next Steps Project Team, Jeremy Cowper presented the UK experience to staff of the National Performance Review and the Office of Management and Budget (I1 Senior Official, Cabinet Office; NPR 1996). All the key documents relating to Next Steps were obtained by OMB and made available to US officials. A special report on the UK experience was prepared in 1996 as the basis of the PBO initiative (NPR 1999). In Japan, the Government started to set up Independent Administrative Corporations in the late 1990s. Japanese officials visited the UK and participated in international conferences on the agency model, stating that their initiative was influenced by the UK reform (Kaneko 1999).

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In the US, PBOs incorporated the main features of the agency model. They involved separating service operation functions from their policy components and placing them in separate organisations reporting to the department. The PBO had more freedom to manage personnel, procurement and other services. A chief executive headed each PBO, who was hired on a fixed term contract through a competitive search and was held accountable for performance. The PBO and the department negotiated a three to five year framework with measurable goals and targets for improvement.

Initially, seven functions were proposed for PBO status by the National Performance Review team in 1997. Congress blocked these, but in 1998 approved the conversion of the Education Department's office of student financial assistance. The PBO was set up as the Office of Financial Assistance Programs. The 2000 budget proposed that organisations requesting PBO status that had previously been blocked reapply, along with Seafood Inspection Services, the Rural Telephone Bank, the National Technical Information Service and the Federal Lands Highway Program (Friel 1999). However, the reform did not take off and, in 2000, the PBO reform did not look like becoming such a large scale change as the agency reform in the UK.

In Japan, Independent Administrative Corporations (IACs) were proposed by government to handle executive tasks separate from ministries (Wright 1998). The bodies resembled the agency model. Under the proposal, IACs had a degree of management freedom with targets set by ministers and the supervising department and were supposed to produce a business plan. IACs were not formally part of central government departments, unlike UK agencies, but had a similar arms length relationship with ministries. IACs were headed by a chief executive who, along with management personnel, was recruited from outside government. By the middle of 2000, the changes had been approved and steps taken to prepare bodies to be transferred to IAC status (Hirose 2000). 89 activities will be transferred in April 2001 including research activities, mint and printing operations and operational activities such as motor vehicle inspection (Matsuda 1999).

The second question is why was the reform adopted and did agencies bring about benefits in the delivery of services? Because the reforms in the US and Japan are at an earlier stage than the UK this question is discussed simultaneously with the third question, what is the likely course of future developments in the use of agencies? Rather than outlining a full explanation of the reforms this section sketches a general explanation to evaluate the relevance of the mark II bureau-shaping model in these contexts. The model does not appear to be as relevant in the US as in the UK because the institutional structure of the central state did not facilitate an executive dominated reform. In developing reforms, the president and vice-president had central executive bodies in the executive branch including the Office of Management and Budget (OMB) and the Office of Personnel Management (OMP), and created advisory bodies such as the National Performance Review team (Peters 1996:133). These units resembled the UK Efficiency Unit and Cabinet Office, with entrepreneurial officials seeking out new reforms. The NPR team was an important in observing UK experience and advocating the reform. The Office of Management and Budget and Office of Personnel Management shared the development of the reform (NPR 1996).

Beyond the central units, the executive was split into departments which co-ordinated reforms in their areas of responsibility and established conversion teams to work on the administrative and legislative changes required to set up the new bodies. The executive employed Federal Government personnel in the Senior Executive Service providing a stable set of officials to implement the reform across the central bodies and departments. The use of presidential appointees, which constitute about nearly all of the 830 odd members of the Executive Schedule of senior officials and 10 per cent of the approximately 7000 SES membership, was a significant source of control and helped foster support for reform (Fesler and Kettl 1996:179 and 191-184).

However, in contrast to the UK, the US system offered multiple sources for advocating reforms and vetoing implementation, because of the constitutional separation of powers. The US Congress was much more influential than Parliament in the UK. Congress formally created all executive departments and most of the bodies outside of them, determined the funding of programmes and

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had the power to reorganise government bodies. Each PBO required legislation approved by Congress, which not only slowed down change but offered a way to bllock the creation of these bodies and made the prospect of setting one up more daunting, in terms of time and effort required. Expertise about the likely effect of reforms was provided by bodies including the General Accounting Office (GAO), the Congressional Research Service and the Congressional Budget Office (Peters 1996: 134-6). The US had a long history of unsuccessful reform imitiatives developed by presidents and blocked by Congress (Kettl 1994). In the pœriod during the introduction of PBOs, Congress was controlled by the Rıepublican Party, who were not keen to help reforms associated with a Democrat Prresident. PBOs were perceived as enhancing the executive's control over deilivery structures to the detriment of congressional influence (GAO 1997a:12-25; 1997b).

In contrast to the US, the Japanese system facilitated centrally led executive reform, making the mark II bureau-shaping model potentially more relevant. The administrative system had a permanent elite civil service and strong central coordiantion, facilitating implementation (Muramatsu and Krauss 1996:241). The proposals arose from an Administrative Reform Council, established in 1996, which reported in December 1997. The reform got strong central direction in 1998 with the establishment of the Headquarters for Central Government reform, headed by the Prime Minister and composed of all the Ministers of State. The process was disrupted by an election in 1998 but the strong central direction of the reform continued despite the change of personalities. A Minister of State for Administrative Reform was given responsibility for the Headquarters, Seiichi Ohta. The other central agency involved in the reform was the Management and Co-ordination Agency. Ohta was at the same time appointed head of this body.

The central executive was powerful relative to other organs of government. The political executive consisted of the Prime Minister's Office and 22 ministerial level departments under the Cabinet, although a new government structure with fewer Cabinet level departments was planned for 2001. There was a need for legislation in Japan, like the US, but this was more easily introduced

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and passed. The Japanese Parliament, to which the executive was responsible, was under the control of the government (Kaneko 1999:1). After the report of the Council in December 1997, a Basic Law for the Reform of Ministries and Agencies was submitted to the Diet in February 1998 and enacted in June 1998. The ability of the central executive to push through reform was reflected in proposed speed of creation of IACs. The IAC candidates were approved by the Cabinet in April 1999 (Matsuda 1999).

The analysis of developments in the US and Japan suggest limits to the scope of findings from this study. The agency model and agencification models are tools for comparative analysis that can be used as benchmarks for exploring the extent of reform in the US and Japan. However, the mark II bureau-shaping model is not directly useful as explanations of the reforms. Many factors were important in influencing developments in the US and Japan. However, the institutional rational choice approach suggests that the institutional structures of the central states were important factors affecting the course of reform. In Japan, whilst legislation was required, the executive was dominant relative to the legislature. In this context, a reformulated mark II bureau-shaping model might have some potential relevance. In contrast, the strength of the US Congress, especially the need for legislation combined with Congress's fears that its influence would be reduced by PBOs, limited implementation. A model exploring bureau-shaping strategies in the context of bureaucrat-legislature relations would appear to be potentially more relevant than the mark II bureau-shaping model.

Unlike the US, but with some similarities to Japan, the UK agency reform was executive dominated New Public Management reform. Legislation was not required to create the agencies, only minor legislative changes were needed to facilitate some aspects of agency working. The mark II bureau-shaping model centres on senior departmental and central unit officials' relationships with executive politicians and its effect on reforms. The model suggests that these actors will be important in determining the future use of agencies in the UK central state.

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Appendices

Appendix 1: Census of Agencies Created Between 1988-1998 Classified by Bureau-tools Type with Year of Creation

Agencies are classified into one of the four mutually exclusive types defined in Table 1.2 in Chapter One. The types are delivery, contract/transfer, trading and trading/contract/transfer. The distinction between trading and non-trading is based on the classification by UK government of the agency as a 'trading fund'. The distinction between a delivery and contract/transfer agency is based on the predominance of budget for the agency's own use, usually called 'running costs' in official documents, or budget passed on by the agency to others. The passed on budget is the difference between an agency's 'running costs' and total budget. The year of creation is given, next to the name of each agency. The information necessary for this classification was gathered from the Next Steps annual reviews from 1990 onwards (Prime Minister and Minister for the Civil Service and the Minister of State, Privy Council Office 1990;1991; Chancellor of the Duchy of Lancaster 1992;1993;1994;1995;1996;1997;1998; Minister for the Cabinet Office 1999;2000).

1. Delivery (119 agencies)

Armed Forces Personnel Administration 97
Army Base Repair Organisation 93
Army Base Storage and Distribution   95
Army Individual Training Organisation 96
Army Personnel Centre 96
Army Technical Support   95
CADW: Historic Monuments   91
Chessington Computer Centre   93
Coastguard   94
Court Service 95
Debt Management Office   98
Defence Accounts   91
Defence Codification   96
Defence Communications Service Agency   98
Defence Dental Agency 96
Defence Estates 97
Defence Postal and Courier Service   92
Defence Transport and Movements Executive 95
Disposal Sales 94
Driver and Vehicle Licensing Agency   90
Duke of York's Military School 92
DVL (NI)   93
Environment and Heritage Service   96
Forest Enterprise   96

2. Trading (15 agencies)

Central Office of Information   90
Defence Evaluation and Research Agency   95
Fire Service College   92
Hydrographic Office   90
Meteorological Office   90

3. Contract/transfer (20 agencies)

Compensation 96
Defence Bills Agency 95
Defence Clothing & Textile Agency   94
Employment Service   90
Government Purchasing Agency96
Highways Agency   94
Intervention Board   90
NHS Pensions 92
Northern Ireland Child Support Agency 93
Pay and Personnel Agency   96
Paymaster   93
Rate Collection Agency 91
Roads Service 96
Scottish Office Pensions   93
Social Security (NI)   91
Social Security Benefits Agency91
Social Security Child Support Agency   93
Social Security War Pensions Agency   94
Student Awards for Scotland   94
Teachers' Pensions   92

4. Trading/contract/transfer (1 agency)

Buying Agency 91

Appendix 2 Agencies Classified by Department with Year of Creation

The agencies are classified by the department in which the member of the government to which they reported, generally the Secretary of State, was located at the time of its establishment. There were very few agencies with multiple reporting lines. However, responsibility for the Intervention Board was split between Scottish, Welsh and Northern Ireland Offices in these areas; responsibility for the Meat Hygiene Service was split between Scottish and Welsh Offices in these regions; responsibility for Forest Enterprise was given jointly to the Welsh Office as well as the Ministry of Agriculture Fisheries and Food. The departments are listed below, ranked by the number of agencies created in each department. The source for the information needed for this classification is the annual reviews of Next Steps agencies, as referenced in Appendix 1.

Ministry of Defence (45 agencies)

Disposal Sales 94
Defence Animal Centre 93
Queen Victoria School 92
Duke of York's Military School 92
Chemical and Biological Defence   91
Defence Accounts   91
Defence Postal and Courier Service   92
Army Base Repair Organisation 93
Logistic Information Systems Agency   94
Naval Aircraft Repair   92
Military Survey 91
RAF Signals Engineering Establishment 94
Service Children Schools   91
RAF Training Group Defence Agency   94
Defence Research   91
Defence Operational Analysis   92
Armed Forces Personnel Administration 97
Army Base Storage and Distribution   95
Army Individual Training Organisation 96
Army Personnel Centre 96
Army Technical Support   95
Defence Analytical Services   92
Defence Codification   96
Defence Communications Service Agency   98
Defence Dental Agency 96
Defence Estates 97
Defence Intelligence and Security Centre   96
Defence Transport and Movements Executive   95
Joint Air Reconnaissance Intelligence   96

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Maintenance Group Defence   94
Medical Supplies Agency   96
Ministry of Defence Police   96
Naval Base and Supply Agency 96
Naval Manning Agency 96
Naval Recruitment and Training Agency95
RAF Logistics Support Service 96
RAF Maintenance Group Defence Agency   91
Service Children's Education   96
Ships Support Agency 96
Hydrographic Office   90
Meteorological Office   90
Defence Evaluation and Research Agency   95
Defence Clothing & Textile Agency   94
Defence Bills Agency   95
Pay and Personnel Agency   96

Northern Ireland Departments (24 agencies)

Ordnance Survey (NI)   92
DVL (NI)   93
Valuation and Lands (NI)   93
Training and Employment NI   90
Business Development Service 96
Environment and Heritage Service   96
Forensic Science Agency NI   95
Forest Service 98
Health Estates NI   95
Industrial Research and Technology Unit   95
Land Registers of NI   96
NI Prison Service   95
NI Statistics and Research Agency   96
Planning Service NI   96
Public Record Office NI95
Rivers Agency NI   96
Water Service 96
DVT (NI)   92
Compensation 96
Rate Collection Agency 91
Northern Ireland Child Support Agency 93
Social Security (NI)   91
Government Purchasing Agency96
Roads Service 96

Cabinet Office (10 agencies)

Occupational Health Service   90
Chessington Computer Centre   93
Recruitment and Assessment   91
Civil Service College   89
Security Facilities Executive   93
CCTA 96
Property Advisers to the Civil Estate   96
Central Office of Information   90

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HMSO 88
Buying Agency 91

Department of Trade and Industry (10 agencies)

National Weights & Measures Laboratory   89
Accounts Services   91
National Engineering Laboratory   90
The Insolvency Service 90
Laboratory of the Government Chemist 89
Radiocommunications   Agency 90
National Physical Laboratory   90
Warren Spring Laboratory   89
Companies House   88
Patent Office   90

Department of Transport (merged to form the Department of the Environment, Transport and the Regions) (10 agencies)

Marine Safety   94
Vehicle Certification Agency   90
Coastguard   94
Transport Research Laboratory 92
Driver and Vehicle Licensing Agency   90
DVOIT 92
Maritime and Coastguard Agency   98
Vehicle Inspectorate   88
Driving Standards Agency   90
Highways Agency   94

Scottish Office Departments (9 agencies)

Scottish Agricultural Science Agency   92
Historic Scotland   91
Scottish Record Office 93
Scottish Fisheries Protection   91
Scottish Prison Service 93
Scottish Court Service 95
Registers of Scotland   90
Student Awards for Scotland   94
Scottish Office Pensions   93

Ministry of Agriculture Fisheries and Food (8 agencies)

Veterinary Medicines Directorate   90
Pesticides Safety Directorate   93
Central Science Laboratory   94
Central Veterinary Laboratory   90
ADAS 92
Meat Hygiene Service   95
Veterinary Laboratories Agency 90
Intervention Board   90

HM Treasury (7 agencies)

Valuation Office 91
Central Statistical Office 91
Debt Management Office 98
National Savings 96
Office for National Statistics 96
Royal Mint 90
Paymaster 93

Department of Social Security (6 agencies)

Social Security: Resettlement 89
Social Security Contributions 91
Information Technology Services Agency 90
Social Security Child Support Agency 93
Social Security War Pensions Agency 94
Social Security Benefits Agency 91

Department of the Environment (merged to form the Department of the Environment, Transport and the Regions) (5 agencies)

Historic Royal Palaces 89
Planning Inspectorate 92
Building Research Establishment 90
Ordnance Survey 90
QEII Conference Centre 89

Department of Health (4 agencies)

Medicines Control Agency 91
NHS Estates 91
Medical Devices Agency 94
NHS Pensions 92

Home Office (4 agencies)

Forensic Science Service 91
HM Prison Service 93
UK Passport 91
Fire Service College 92

Lord Chancellor's Department (4 agencies)

Public Record Office 92
Public Trust Office 94
Court Service 95
HM Land Registry 90

Department of Employment (merged to form Department for Education and Employment)

Employment Service 90

Department of National Heritage

Royal Parks   93

Department of Education (later merged to form Department for Education and Employment)

Teachers' Pensions   92

Foreign and Commonwealth Office

Wilton Park   91

Overseas Development Administration

Natural Resources Institute   90

Treasury Solicitors Department

Government Property Lawyers 93
(Treasury Solicitors Department itself became an agency of the Attorney General in 96)

Welsh Office

CADW: Historic Monuments   91

Appendix 3: Types of Agencification for Agencies with Year of Creation

Agencies are classified according to the framework of four types of agencification: pure agencification, mitigated agencification and nominal agencification as outlined in Chapter One and summarised in Table 2.6 in Chapter Two. The types are identified by differences in the status of the organisational unit previously responsible for handling the activities that were put in agencies. The agencies are identified in Appendix 1. Information about the previous location of the activities handled by agencies was gathered from the annual Civil Service Yearbooks (Cabinet Office 1988;1989;1990;1991b ;1992b;1993;1994;1995d,1996,1997a,1998b). In some cases, the pre-agency arrangements were not obvious from looking only at the Civil Service Yearbook because the function was not clearly located in a unit with a similar title and location. In these cases the annual review of agencies, referenced in Appendix 1, was consulted for the first year of the agency's existence. This approach enabled the previous position of the activities to be established using the Civil Service Yearbook.

1. Pure Agencification (22 agencies)

Army Base Repair Organisation 93
Maintenance Group Defence   94
Recruitment and Assessment   91
Royal Parks   93
Security Facilities Executive   93
Social Security Contributions   91
Central Science Laboratory   94
Defence Analytical Services   92
Defence Research   91
DVOIT 92
Information Technology Services Agency   90
Logistic Information Systems Agency   94
Medical Devices Agency   94
Medicines Control Agency   91
RAF Signals Engineering Establishment 94
RAF Training Group Defence Agency   94
Defence Clothing & Textile Agency   94
Highways Agency   94
Rate Collection Agency 91
Social Security (NI)   91
Social Security Benefits Agency 91
Social Security War Pensions Agency   94

2. Mitigated agencification (108 agencies)

Armed Forces Personnel Administration 97
Army Base Storage and Distribution   95
Army Individual Training Organisation 96
Army Personnel Centre 96

3 Nominal Agencification (22 agencies)

4 New Function (3 agencies)

Appendix 4: Agencies Involved in Routine and Non-routine Activities by Type

Agencies are classified by the activity they were primarily involved in during the period, placing them in two categories, 'routine' activity or 'non-routine' activity, as discussed in Chapter Four. The results are presented in summary form in Table 4.2 in Chapter Four. Routine activities involve standardised, executive, procedures. Indicators of this sort of activity include clearly specified programmes for the agency, a rule bound structure for the agency's organisation, absence of a policy advice function or this activity forming only a small part of the agency's work. In contrast, non-routine activities involve case by case treatments without clear rules and innovative, policy work. Indicators of this sort of activity include specification of agency tasks in terms of general principles or values rather than in a specific programme, flexible or ad hoc rather than rule bound organisational structure, and presence of a substantial policy advice function.

Most agencies were involved in both types of activities and are allocated according to their predominant activity. The information required to make this judgement was gathered from the one or two page descriptions of agencies in the Cabinet Office annual reviews of agencies and descriptions in the Civil Service Yearbooks, referenced in Appendices 1 and 3. In most cases, several years of annual review were available.

The distinction between routine and non-routine activity is the most complex of the categorisations used in the research because of the multiple indicators and multiple sources of information. For this reason, the methods used in classifying agencies are illustrated for the case of the Benefits Agency. This agency is used as an example because of the research focuses on this case. The annual reviews and Civil Service Yearbooks relating to the Benefits Agency were examined for the years 1992-1998 inclusive, as referenced in Appendices 1 and 3. Applying the indictors to the annual review of 1994 shows the method in this case.

Indicator One: Is the agency's task stated as a clearly specified programme or expressed as general principles or values?

The Benefits Agency's task is defined in the Review. 'The main business of the Agency is to process enquiries, claims, payments, and changes of circumstance in relation to its benefits responsibilities.' The Review continues 'For 1993-94 the Secretary of State for Social Security set 26 financial and service delivery targets' (Chancellor of the Duchy of Lancaster 1994:100). The targets reflected that the activities were standardised sufficiently to enable such measurement. This standardisation, even if not fully reflecting the activities, is more specific than general aims expressing goals such as improving welfare, which would involve greater scope for innovation and flexibility. On this indicator, the Agency is involved in routine activity.

Indictor Two: Is the organisational structure rule bound or flexible?

The Benefits Agency had a set of national procedures and was developing new ones during the period, including rolling out a national 'service delivery programme' reflecting rule constrained structure and method of working within the agency (Chancellor of the Duchy of Lancaster 1994:101). On this indicator, the Agency is involved in routine activity.

Indicator Three: Is the agency involved in policy advice or is the policy advice function absent?

The description of the Agency's activities did not mention policy advice on welfare issues or social security as the main task of the Agency. Whilst the agency makes a contribution to policy making the 'main business' was described as delivering as set of programmes on behalf of the Government (Chancellor of the Duchy of Lancaster 1994:100). On this indicator, the Agency is involved in routine activity.

Overall: the Benefits Agency is involved in routine activity.

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A Primarily Routine Activities

1. Delivery

Army Base Repair Organisation
Maintenance Group Defence
Recruitment and Assessment
Royal Parks
Security Facilities Executive
Social Security Contributions
Armed Forces Personnel Administration
Army Base Storage and Distribution
Army Individual Training Organisation
Army Personnel Centre
Army Technical Support
CADW: Historic Monuments
Chessington Computer Centre
Coastguard
Debt Management Office
Defence Accounts
Defence Codification
Defence Communications Service Agency
Defence Dental Agency
Defence Estates
Defence Postal and Courier Service
Defence Transport and Movements Executive
Disposal Sales
Driver and Vehicle Licensing Agency
Duke of York's Military School
DVL (NI)
Environment and Heritage Service
Forest Enterprise
Forest Service
Health Estates NI
Historic Royal Palaces
Historic Scotland
HM Prison Service
Joint Air Reconnaissance Intelligence
Maritime and Coastguard Agency
Medical Supplies Agency
Ministry of Defence Police
Naval Aircraft Repair
Naval Base and Supply Agency
Naval Manning Agency
Naval Recruitment and Training Agency
NHS Estates
NI Prison Service
RAF Logistics Support Service
RAF Maintenance Group Defence Agency
Rivers Agency NI
Scottish Fisheries Protection
Scottish Prison Service
Ships Support Agency
Social Security: Resettlement
Training and Employment NI

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UK Passport
Valuation and Lands (NI)
Valuation Office
Vehicle Certification Agency
Water Service
Wilton Park
Court Service
Land Registers of NI
National Savings
Public Record Office
Public Record Office NI
Public Trust Office
Queen Victoria School
Scottish Court Service
Scottish Record Office
Service Children's Education
Service Children Schools
Meat Hygiene Service

2. Trading

Companies House
Driving Standards Agency
DVT (NI)
Patent Office
QEII Conference Centre
Vehicle Inspectorate
HM Land Registry
HMSO
Registers of Scotland
Royal Mint

3. Contract/transfer

Defence Clothing & Textile Agency
Highways Agency
Rate Collection Agency
Social Security (NI)
Social Security Benefits Agency
Social Security War Pensions Agency
Compensation
Defence Bills Agency
Employment Service
Government Purchasing Agency
NHS Pensions
Pay and Personnel Agency
Roads Service
Scottish Office Pensions
Student Awards for Scotland
Teachers' Pensions
Intervention Board
Paymaster
Northern Ireland Child Support Agency
Social Security Child Support Agency
Buying Agency

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B Primarily Non-routine Activities

1. Delivery

Central Science Laboratory
Defence Analytical Services
Defence Research
DVOIT
Information Technology Services Agency
Logistic Information Systems Agency
Medical Devices Agency
Medicines Control Agency
RAF Signals Engineering Establishment
RAF Training Group Defence Agency
Accounts Services
ADAS
Building Research Establishment
Business Development Service
CCTA
Central Veterinary Laboratory
Chemical and Biological Defence
Civil Service College
Defence Animal Centre
Defence Intelligence and Security Centre
Defence Operational Analysis
Forensic Science Agency NI
Forensic Science Service
Government Property Lawyers
Industrial Research and Technology Unit
Laboratory of the Government Chemist
Marine Safety
Military Survey
National Engineering Laboratory
National Physical Laboratory
National Weights & Measures Laboratory
Natural Resources Institute
NI Statistics and Research Agency
Occupational Health Service
Office for National Statistics
Pesticides Safety Directorate
Planning Inspectorate
Planning Service NI
Property Advisers to the Civil Estate
Radiocommunications Agency
Scottish Agricultural Science Agency
The Insolvency Service
Transport Research Laboratory
Treasury Solicitors Dept
Veterinary Medicines Directorate
Veterinary Laboratories Agency
Central Statistical Office
Ordnance Survey
Ordnance Survey (NI)
Warren Spring Laboratory

2. Trading

Defence Evaluation and Research Agency
Fire Service College
Hydrographic Office
Meteorological Office
Central Office of Information

Appendix 5 Sections of the Parent Departments of Agencies Classified by Bureau-tools Type

A census was taken to give a broad indication of the types of activity handled by departments which had agencies. The date of 1995 was used, after the bulk of agencies had been created and just before major reorganisations of the central departments. 138 sections were identified below the level of the department but above that of 'departmental sections', to identify the main parts of each department. The application of this criterion produces slightly different kinds of unit in each department, because there is no standard structural form within departments across the central state, but allows broadly similar sections to be identified. In the case of small departments, for example the Northern Ireland Office, the department as a whole is used as the unit for analysis. In cases where there were several small units these are grouped to form a residual category. The routine/ non-routine distinction was operationalised in the same way as in Appendix 4. The activities were identified from the Civil Service Yearbook (Cabinet Office 1995d) and departmental report summaries (Treasury 1996).

Ministry of Agriculture, Fisheries and Food

Food Safety: Non-routine Delivery
Food Science: Non-routine Delivery
Vet Field Services: Non-routine Delivery
European Community: Non-routine Delivery
Arable Crops and Horticulture: Non-routine Delivery
Livestock Group: Non-routine Delivery
Food, Drink and Marketing Policy: Non-routine Delivery
Land Use Conservation and Countryside: Non-routine Delivery
Fisheries and Inspectorate: Non-routine Delivery
Fisheries Research: Non-routine Delivery
Environment Policy: Non-routine Delivery
Economics and Statistics: Non-routine Delivery
Finance and Establishments: Non-routine Delivery (Non-routine Contract/transfer)
Legal Group: Non-routine Delivery
Regional Services: Non-routine Contract/transfer

Cabinet Office

Office of Public Service and Science Establishments: Non-routine Delivery
Office of Public Service and Science Management Group: Non-routine Delivery
Office of Public Service and Science Office of Science and Technology: Non-routine Delivery
Office of Public Service and Science Other Units: Non-routine Delivery
Secretariat: Non-routine Delivery

Ministry of Defence

Naval Department: Non-routine Delivery (Non-routine Contract/transfer)
Army Department: Non-routine Delivery (Non-routine Contract/transfer)
Air Force Department: Non-routine Delivery (Non-routine Contract/transfer)
Scientific Staff: Non-routine Delivery
Office of Management and Budget: Non-routine Delivery (Non-routine Contract/transfer)
Defence Information Division: Non-routine Delivery
Procurement Executive: Non-routine Contract/transfer
Defence Export Services Organisation: Non-routine Delivery
Other Parts of central MoD: Non-routine Delivery (Non-routine Contract/transfer)

Department for Education

Schools Organisation: Non-routine Delivery
Schools Funding: Non-routine Contract/transfer
Pupils and Parents: Non-routine Delivery
Further and Higher Education and International: Non-routine Delivery
Schools Curriculum and Teachers: Non-routine Delivery
Establishments: Non-routine Delivery (Non-routine Contract/transfer)

Employment Department Group

Industrial Relations and International Directorate: Non-routine Delivery
Resources and Strategy Directorate: Non-routine Delivery
Training, Enterprise and Education Directorate: Non-routine Delivery (Non-routine Contract/transfer)

Department of the Environment

Organisation and Establishments and Administrative Resources Group: Non-routine Delivery (Non-routine Contract/transfer)
Central Management and Analysis Unit: Non-routine Delivery
Directorate of Communication: Non-routine Delivery
Local Government and Planning: Contract/transfer (Non-routine Delivery)
Cities and Countryside Group: Non-routine Delivery (Non-routine Contract/transfer)
Property Holdings and Central Support Services Group: Non-routine Delivery
Housing and Construction Group: Non-routine Delivery
Environmental Protection Group: Non-routine Delivery
Chief Scientist: Non-routine Delivery
Legal: Non-routine Delivery

Foreign and Commonwealth Office

UN and Europe: Non-routine Delivery
Home Estate and Consular: Non-routine Delivery (Non-routine Contract/transfer)
Aviation, Economic and Overseas Trade: Non-routine Delivery
South Asia, Far East, South Atlantic: Non-routine Delivery
Commonwealth and Middle East: Non-routine Delivery
Arms Control and Security: Non-routine Delivery

Department of Health

NHS Executive: Non-routine Delivery (Non-routine Contract/transfer)

Departmental Resources and Services Group: Non-routine Contract/transfer (Non-routine Delivery)
Health and Social Services Group: Non-routine Delivery

Home Office

Legal Advisers Branch: Non-routine Delivery
Criminal, Research and Statistics Department: Non-routine Delivery
Fire and Emergency Planning Department: Non-routine Delivery
Police Department: Non-routine Delivery (Non-routine Contract/transfer)
Equal Opportunities and General Non-routine Delivery
Immigration and Nationality Department: Delivery
Personnel and Office Services and Finance Departments: Non-routine Contract/transfer (Non-routine Delivery)

Lord Chancellor's Department

Judicial Appointments Group: Non-routine Delivery
Legal Group and Policy and Legal Services: Non-routine Delivery
Establishment and finance Group: Non-routine Delivery
Court Service Business Group: Non-routine Contract/transfer (Non-routine Delivery)

Department of National Heritage

Heritage and Tourism Group: Non-routine Delivery
Broadcasting and Media Group: Non-routine Delivery
Arts, Sports and Lottery Group: Non-routine Delivery
Libraries, Galleries and Museums Group: Non-routine Contract/transfer (Non-routine Delivery)
Resources and Services Group: Non-routine Contract/transfer

Overseas Development Administration

Finance and Personnel: Non-routine Contract/transfer
Africa: Non-routine Delivery
Asia and Pacific Division: Non-routine Delivery
International Division: Non-routine Delivery
Latin America, Caribbean and Atlantic Department: Non-routine Delivery (Non-routine Contract/transfer)
Other Divisions: Non-routine Delivery

Department of Social Security

Solicitors Office: Non-routine Delivery
Resource Management and Planning Group: Non-routine Contract/transfer
Social Security Policy Division: Non-routine Delivery

Department of Trade and Industry

Establishments and Finance: Non-routine Contract/transfer
Solicitor's Office: Non-routine Delivery
Corporate and Consumer Affairs: Non-routine Delivery
Regional and Small Firms Command: Non-routine Delivery
Laboratories: Non-routine Delivery

Energy: Non-routine Delivery
Industry: Non-routine Delivery
Trade Policy and Export Provision: Non-routine Delivery

Department of Transport

Infrastructure: Non-routine Delivery
Operations: Non-routine Delivery
Central Services: Non-routine Contract/transfer (Non-routine Delivery)

Treasury

Personnel, Finance and Support Services: Non-routine Delivery
Fiscal and Monetary Policy: Non-routine Delivery
Overseas Finance: Non-routine Delivery
Economic Advice: Non-routine Delivery
Industry and Financial Institutions: Non-routine Delivery
Public Expenditure: Non-routine Contract/transfer
Public Services: Non-routine Contract/transfer
Accountancy: Non-routine Delivery
Civil Service Management and Pay: Non-routine Delivery

Northern Ireland

Northern Ireland Department: Non-routine Delivery (Non-routine Contract/transfer)

Department of Economic Development for Northern Ireland

Resources Group: Non-routine Contract/transfer
Regulatory Services: Non-routine Delivery
Science and Technology Group: Non-routine Delivery

Department of the Environment (Northern Ireland)

Personnel and Management: Non-routine Delivery
Planning and Urban Affairs: Non-routine Delivery
Roads Service and Works: Non-routine Contract/transfer
Housing and Local Government: Non-routine Contract/transfer (Non-routine Delivery)

Department of Finance and Personnel

Supply and Resource Groups: Non-routine Contract/transfer
Establishment Finance and Consultancy: Non-routine Delivery
Other Sections: Non-routine Delivery

Department of Health and Social Services (Northern Ireland)

Central Management and Social Security: Non-routine Delivery (Non-routine Contract/transfer)
Health and Personal Social Services Management Executive: Non-routine Delivery (Non-routine Contract/transfer)
Health and Personal Social Services Policy and Strategy Group: Non-routine Delivery
Medical and Allied Services: Non-routine Delivery

Scotland

Scottish Office Agriculture and Fisheries Department

Central: Non-routine Delivery (Non-routine Contract/transfer)
Commodities and Land Group: Non-routine Delivery
Fisheries: Non-routine Delivery

Scottish Office Environmental Department

Local Government: Non-routine Delivery (Non-routine Contract/transfer)
Rural Affairs and Natural Heritage: Non-routine Delivery
Housing: Non-routine Delivery (Non-routine Contract/transfer)
Engineering, Water and Waste: Non-routine Delivery
Other sections: Non-routine Delivery

Scottish Office Home and Health Department

Civil Law, Police, Fire and Emergency Planning: Non-routine Delivery (Non-routine Contract/transfer)
Criminal Justice: Non-routine Delivery
Management Executive for NHS in Scotland: Non-routine Delivery (Non-routine Contract/transfer)
Health Policy: Non-routine Delivery
Social Work Services Group: Non-routine Delivery (Non-routine Contract/transfer)
Medical and Dental Services: Non-routine Delivery

Wales

Welsh Office

Finance and Legal: Non-routine Delivery
NHS Directorate in Wales: Non-routine Delivery (Non-routine Contract/transfer)
Economic Affairs: Non-routine Delivery
Health Department: Non-routine Delivery (Non-routine Contract/transfer)
Agriculture, Industry, Economic Development and Training: Non-routine Delivery (Non-routine Contract/transfer)
Education, Health and Social Services Policy, Housing, Environmental Protection, Transport, Highways Planning and Local Government Reorganisation: Non-routine Delivery.

Appendix 6: Agencies Ranked by Written Parliamentary Questions Per £m of Running Costs 1995/96

Agencies are ranked using analysis conducted on Statistical Package for Social Scientists database by dividing the number of written Parliamentary Questions by £m cost of each agency. Budget figures are taken from Cabinet Office reviews of agencies, as in Appendix 1, and information on parliamentary questions per agency from Judge, Hogwood and McVicar (1997:109-112).

Rank	PQper£m	Next Steps Agency Name
1	8.00	Veterinary Medicines Directorate
2	7.69	National Weights & Measures Laboratory
3	6.47	Wilton Park
4	6.00	Marine Safety
5	4.41	Vehicle Certification Agency
6	4.17	Compensation
7	3.88	CADW: Historic Monuments
8	3.20	Teachers' Pensions
9	2.89	Disposal Sales
10	2.50	Buying Agency
11	2.50	Government Property Lawyers
12	2.33	Occupational Health Service
13	2.14	Rate Collection Agency
14	2.14	Student Awards for Scotland
15	2.13	Highways Agency
16	2.00	Accounts Services
17	2.00	Scottish Agricultural Science Agency
18	1.94	Defence Animal Centre
18	1.94	Defence Animal Centre
19	1.93	Chessington Computer Centre
19	1.93	Chessington Computer Centre
20	1.89	Recruitment and Assessment
20	1.89	Recruitment and Assessment
21	1.86	Queen Victoria School
21	1.86	Queen Victoria School
22	1.81	Duke of York's Military School
22	1.81	Duke of York's Military School
23	1.80	National Engineering Laboratory
23	1.80	National Engineering Laboratory
24	1.72	Coastguard
24	1.72	Coastguard
25	1.67	Pesticides Safety Directorate
25	1.67	Pesticides Safety Directorate
26	1.60	Medicines Control Agency
26	1.60	Medicines Control Agency

27	1.59	Chemical and Biological Defence
28	1.58	Scottish Office Pensions
29	1.54	Companies House
30	1.53	NHS Estates
31	1.45	Intervention Board
32	1.39	Patent Office
33	1.36	Public Record Office
34	1.33	Social Security Child Support Agency
35	1.32	Ordnance Survey (NI)
36	1.27	Historic Scotland
37	1.17	Northern Ireland Child Support Agency
38	1.15	Scottish Record Office
39	1.11	DVT (NI)
40	1.10	Transport Research Laboratory
41	1.07	Public Trust Office
42	1.04	The Insolvency Service
43	1.01	NHS Pensions
44	1.00	Central Science Laboratory
45	.96	DVL (NI)
46	.95	Planning Inspectorate
47	.94	Laboratory of the Government Chemist
48	.87	Vehicle Inspectorate
49	.87	Medical Devices Agency
50	.85	Valuation and Lands (NI)
51	.82	Training and Employment NI
52	.75	Civil Service College
52	.75	Civil Service College
53	.73	Central Veterinary Laboratory
53	.73	Central Veterinary Laboratory
54	.73	Paymaster
55	.68	QEII Conference Centre
55	.68	QEII Conference Centre
56	.67	Social Security War Pensions Agency
56	.67	Social Security War Pensions Agency
57	.65	Radiocommunications
57	.65	Radiocommunications
58	.64	Fire Service College
58	.64	Fire Service College
59	.63	Driving Standards Agency
59	.63	Driving Standards Agency
60	.59	Scottish Fisheries Protection
60	.59	Scottish Fisheries Protection
61	.54	Defence Accounts
61	.54	Defence Accounts
62	.54	Royal Parks
62	.54	Royal Parks
63	.51	ADAS
63	.51	ADAS
64	.50	Forensic Science Service

		Science Service
65	.48	Natural Resources Institute
66	.46	Building Research Establishment
67	.44	Historic Royal Palaces
68	.42	Registers of Scotland
69	.37	Royal Mint
70	.36	Scottish Prison Service
71	.35	HM Prison Service
72	.34	Security Facilities Executive
73	.34	National Physical Laboratory
74	.34	Defence Postal and Courier Service
75	.31	Social Security: Resettlement
76	.26	Army Base Repair Organisation
77	.26	Logistic Information Systems Agency
78	.25	UK Passport
79	.22	Central Office of Information
80	.22	Naval Aircraft Repair
81	.18	Hydrographic Office
82	.18	HM Land Registry
83	.18	Employment Service
84	.17	Driver and Vehicle Licenscing Agency
85	.15	Social Security Contributions
86	.13	Ordnance Survey
87	.13	Military Survey
88	.11	Social Security (NI)
89	.10	Valuation Office
90	.10	RAF Signals Engineering Establishment
90	.10	RAF Signals Engineering Establishment
91	.09	Meteorological Office
91	.09	Meteorological Office
92	.09	Service Children Schools
92	.09	Service Children Schools
93	.08	Social Security Benefits Agency
93	.08	Social Security Benefits Agency
94	.06	Defence Clothing & Textile Agency
94	.06	Defence Clothing & Textile Agency
95	.04	Information Technology Services Agency
95	.04	Information Technology Services Agency
96	.01	RAF Training Group Defence Agency
96	.01	RAF Training Group Defence Agency
97	.01	Defence Research
97	.01	Defence Research
98	.00	Defence Operational Analysis
98	.00	Defence Operational Analysis

Appendix 7: Box Plot of Percentage Change in Budget for 72 Agencies 1995/96 to 1997/98

Budget changes were calculated for the 72 agencies from annual reviews of agencies, as in Appendix 1, using the Statistical Package for Social Scientists. The left had axis of the box plot shows percentage change in budget, with a median of 4.4 per cent budget fall shown by the thick back line. The case nearest the median was the Benefits Agency, with a fall of 4.43 per cent. The lower and upper quartiles of cases are shown by the ends of the box with the thin lines showing the level of the maximum and minimum scores. The star is the extreme case of the Forensic Science Service which had a budget rise of 75.5 per cent. The largest fall was the Insolvency Service at 25.07 per cent. The data came from a database of agencies analysed using SPSS from data contained in Cabinet Office reviews of agencies and annual reports.

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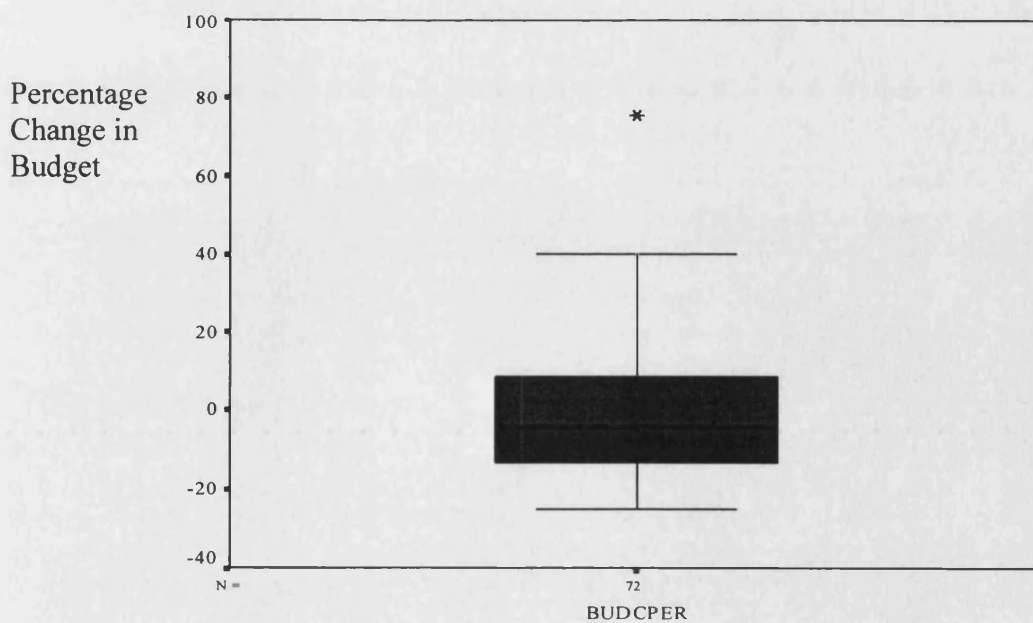
Appendix 8: Box Plot of Percentage Budget Change for 72 agencies 1995/96 to 1997/98 by Type of Agency (with Number of Cases)

The thick line in the box plot shows the median scores for each type of agency as calculated using the Statistical Package for Social Scientists. There was a fall of 6.7 per cent for delivery agencies, a rise of 8.2 per cent for trading agencies and a fall of 0.9 per cent for contract/transfer agencies. The ends of the boxes show the lower and upper quartiles and the lines the minimum and maximum changes. For the delivery type, an extreme case was the Forensic Science Service with an increase of 75.5 per cent and outliers shown by the circle were the Vehicle Certification Agency and Wilton Park Conference Centre both with 35.2 per cent increases.

Types of Agency: 1=Delivery, 2=Trading, 3=Contract/transfer
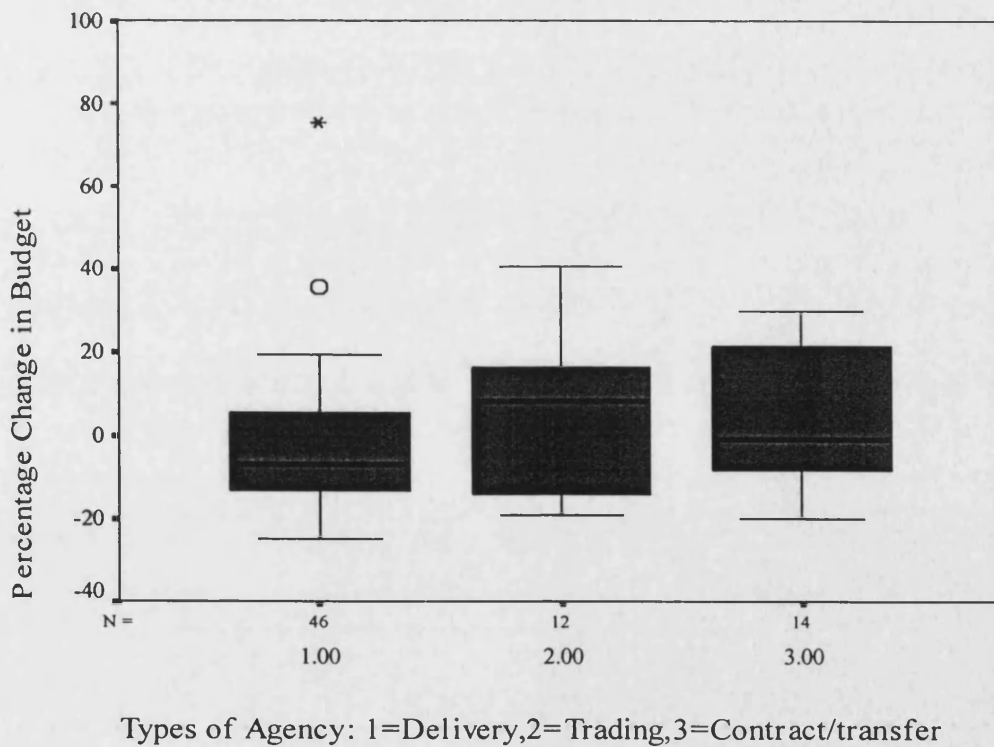
Appendix 9: Box Plot of Percentage Budget Change for 72 Agencies by Income Source Non-trading (Grant Financed) and Trading (Charged Services) 1995/6 to 1997/8 (with Number of Cases)

The results were analysed using the Statistical Package for Social Scientists. The bold line in the box plot shows the median change in budget, a fall of 6.7 for non trading but a rise of 8.2 per cent for trading agencies. The edge of each box shows the lower and upper quartiles with the lines showing minimum and maximum scores. The extreme case shown by the star was the Forensic Science Service with an increase of 75.5 per cent.
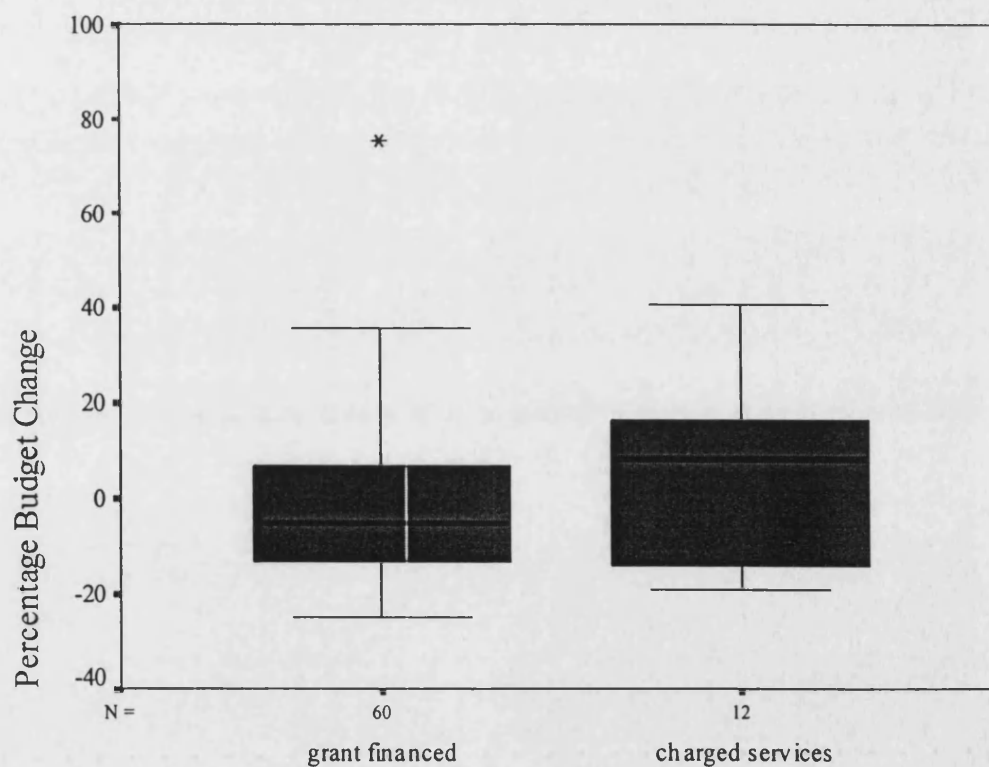
Income Non-trading (Grant) or Trading (Charged)

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Appendix 10: The Formal Mark II Bureau-shaping Model

The maximisation problem for an individual official can be expressed formally and is analogous to the simple economic model of a consumer seeking to maximise utility subject to a budget constraint. The preferences of an individual official are represented by the utility function-

$U = X^{1/2} + Y^{1/2}$

Where U is total utility, X is core budget per senior bureaucrat and Y is proportion of policy work time in total work time.

The bureaucrat's constraint imposed by politicians is-

$Y = 1 - aX$

Where 1 is the limited work time available to the bureaucrat, (a) is the proportion of management time in total work time which politicians insist a bureaucrat must spend supervising each unit of core budget per senior bureaucrat and $0 < a < 1$.

The slope of each indifference curve is given by the marginal utility of X divided by the marginal utility of Y-

$dY/dX = -(1/2X^{-1/2})/(1/2Y^{-1/2}) = -Y^{1/2}/X^{1/2}$

The slope of the constraint is given by-

$dY/dX = -a$

At the interior optimum, the slopes of the constraint and indifference curve are equal-

$Y^{1/2}/X^{1/2} = a$, or $Y = a^2X$, which can be solved with the constraint to yield the optimum values of X and Y,

$Y^* = 1/(1+(1/a))$

$X^* = 1/a(1+a)$

The function used in the formal model assumes independence of the marginal utilities of X and Y implying that policy work time and core budget levels affect utility only by the sum of their separate contributions and not by forming particularly desirable or undesirable combinations. For the sake of clarity the figures are drawn schematically. The level of policy work is largely independent of the level of core budget per senior bureaucrat. A negligible level of core budget per senior bureaucrat is required to undertake policy work compared to that involved in

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executive activity because policy work tends to be more labour intensive in terms of senior officials and less intensive in other resources than executive activity.

The model also assumes a stable relationship between changes in executive activity and core budget per senior bureaucrat and between changes in the level of policy work and proportion of policy work time. Stability requires that the number of senior officials and efficiency in the use of core budgets and policy work time are constant. Without these assumptions core budget per senior bureaucrat, for example, could be reduced by increased efficiency leaving the level of executive activity unchanged.

The tightening of politicians' constraint on officials shown in Figure 7.3 is expressed formally by a rise in (a). The equations for optimum X and Y imply that a rise in (a) will cause a fall in X and a rise in Y. In order for a rise in (a) to cause a rise in Y the substitution effect of a rise in (a) must outweigh the income effect which tends to reduce the amount of Y.

Appendix 11: Radical Changes to Agencies 1988-1998

The changes are classified into several types, which are mutually exclusive. They are privatised or partially contracted out, wholly contracted out, merger or other change, wholly abolished. These changes were identified by analysis of Cabinet Office documents (Cabinet Office 1998).

1) Privatised or partially contracted out (11 agencies)

National Engineering Laboratory
Building Research Establishment
Chessington Computer Centre
DVOIT
HMSO
Laboratory of the Government Chemist
Natural Resources Institute
Occupational Health Service
Paymaster
Recruitment and Assessment
Transport Research Laboratory

2) Wholly contracted out (2 agencies)

National Physical Laboratory
Teachers' Pensions Agency

3) Merger or other change (7 agencies)

Central Science Laboratory
Chemical and Biological Defence
Coastguard
Defence Accounts Agency
Historic Royal Palaces
Security Facilities Executive
Warren Spring Laboratory

4) Wholly abolished (1 agency)

Social Security: Resettlement Agency

Appendix 12: Interviews Conducted for the Study

The study uses a range of methods to explore its research questions. Interview material is particularly useful as a source for evidence not available in official publications or other sources. Whilst a standard set of questions was not used, the questions addressed the research questions of the overall study. This approach had two main elements. Firstly, interviews were used to identify the official version of the changes and to evaluate the public interest model by gathering information about the conduct and outcome of the reform and the performance of agencies. Secondly, interviews were used to gather officials' opinions about inconsistencies in the official accounts and to gather evidence to evaluate the alternative mark II bureau-shaping explanation. However, in this regard, interview material was not used as the only source of evidence. Instead, findings from interview material were triangulated by other sources. This reduced the problem of relying on responses which might have reflected misrepresentation in some form, such as an official line or might further a purpose for the respondent rather than providing evidence for exploring the issues in this study.

The interviews were conducted on a Chatham House basis such that interviewees' comments are not attributed to them by name, the list of interviewees is not a public document. As well as facilitating access to interviewees who were reluctant to be named, this approach reduced the incentive for officials simply to give the official line by removing the possibility that critical comments could be read by politicians or senior colleagues. This approach removed the fear that senior colleagues or politicians might take action against the interviewee, for example harming their careers, because of dissatisfaction with being implicated in failures by their testimony.

The interviews were conducted face to face and in nearly all cases lasted between one hour and one and one half hours, a few were conducted by telephone. The first set of interviews are coded 'Ix' and were conducted exclusively for this study. The second set of interviews were conducted to inform this project but primarily for another study, the 'Bureaucratic Gamekeeping'

project. This project was lead by Christopher Hood and was part of the ESRC Whitehall Programme directed by Rod Rhodes. These additional interviews are coded 'IAx'. The codes in brackets are those used in the Bureaucratic Gamekeeping project and in the book reporting the findings of the study (Hood, Scott, James, Jones, Travers:1999).

Interviews Conducted Exclusively for this Study

I1 9/8/97 Jeremy Cowper, Next Steps Team Leader, Efficiency and Effectiveness Group, Cabinet Office

I2 9/8/97 John Oughton, Director of the Efficiency and Effectiveness Group, Cabinet Office

I3 9/8/97 Ian MacFadyen, Efficiency Unit, Cabinet Office

I4 30/3/00 Lynda Pearce, HEO, Benefits Agency, Exeter Local Office (telephone)

I5 30/3/00 Jane Wheeler, Director Social Security, National Audit Office, London (telephone interview)

I6 4/4/00 John Thorpe, Director of Performance Measurement Audit, National Audit Office, London

I7 4/4/00 Michael Whitehouse, Director of Modernising Government and Nick Lacy, Senior Official, National Audit Office, London.

I8 4/4/00 Jim Marshall, Assistant Auditor General, National Audit Office, London

I9 14/4/00 David Williams, Private Secretary to Hugh Bailey MP, Department of Social Security, London.

I10 10/5/00 Debbie Williams, Business Improvement Unit, Benefits Agency, Exeter (telephone).

I11 16/5/00 Chris Bull, Director, Benefit Fraud Inspectorate, London

I12 17/5/00 Sir John Bourn, Comptroller and Auditor General, Michael Whitehouse, Chris Lambert, National Audit Office, London

I13 1/6/00 Graham Carter, Area Director SW, Benefits Agency, Pynes Hill, Exeter.

I14 15/600 Stephen Hewitt, Policy Director, Department of Social Security, The Adelphi, London

I15 20/7/00 Alexis Cleveland, Chief Executive, Benefits Agency, Richmond House, London.

Additional Interviews Conducted Jointly with the 'Bureaucratic Gamekeeping' Project

IA1 11/1/96 (I7) John Gieve, Deputy Director, Budget and Public Finance Directorate, HM Treasury

IA2 16/1/96 (I8) John Colling, Procurement Unit, HM Treasury

IA3 18/1/96 (I9) Andrew Likierman, Chief Accountancy Advisor to the Treasury, Head of the Government Accounting Service, Treasury Principal Finance Officer, HM Treasury.

IA4 12/2/96 (I13) Sandra Brown, Grade 5, Head of Departmental Pay Systems, HM Treasury.

IA5 13/2/96 (I14) Nicholas Holgate, Grade 5, Strategy, Finance and Purchasing, HM Treasury.

IA6 20/2/96 (I15) Joe Cavanagh, Director of Corporate Policy, National Audit Office.

IA7 22/2/96 (I16) John Oughton, Grade 3, Head of Efficiency Unit, Office of Public Service, Cabinet Office.

IA8 26/2/96 (I17) Jamie Mortimer, Grade 3, Treasury Officer of Accounts, HM Treasury.

IA9 1/3/96 (I18) Genie Turton, Director Citizen's Charter Unit, Office of Public Services, Cabinet Office.

IA10 25/6/96 (I23) William K. Reid, Parliamentary Commissioner for Administration, Health Service Commissioner.

IA11 27/6/96 (I24) Sir Peter Woodhead, Prisons Ombudsman.

IA12 1/6/96 (I25) Martin Pfleger, Assistant Auditor General, National Audit Office.

IA13 11/10/96 (I33) John Dowdall, Comptroller and Auditor General, Northern Ireland Audit Office.

IA14 7/4/97 (I36) John Semple, Permanent Secretary, Department of Finance and Personnel and NI Civil Service Commisissioner, Civil Service Commission, Department of Finance and Personnel Northern Ireland.

IA15 8/4/97 (I37) John MacQuarrie, Deputy Commissioner, Northern Ireland Ombudsman.

IA16 11/9/96 (IEE7) Richard Tilt, Director General of the Prison Service, HM Prison Service

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Benefit Fraud Inspectorate (1999c) Report on the Social Security Contributions Agency http://www.dss.gov.uk/hq/pubs/bfi/devon/.

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