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Part III
Conclusions

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7
The Perspectives, Findings about Practice and the Future Use of Executive Agencies

The findings from Part II suggest answers to the three questions set out in Chapter 1 and allow an overall assessment of the relative merits of the two perspectives. These answers and assessments are set out in Section 1. Section 2 draws on the perspectives and the findings to suggest ways in which the use of executive agencies may develop in the future. Section 3 assesses the potential relevance of the perspectives and the findings for understanding executive agencies in other countries.

Section 1: Answers to the three questions about executive agencies and the relative merits of the perspectives

Drawing together the findings suggests that, overall, bureau-shaping hypotheses are more consistent with the practice set out in Part II than public interest hypotheses. In explaining why the executive agency reform occurred, both perspectives are consistent with the dominant role of actors within, rather than outside, central government, as set out in Chapter 3. However, consistent with bureau-shaping rather than public interest hypotheses, politicians did not have a plan for executive agency reform. The Next Steps proposal was influenced by senior officials' preferences for the organisation of their departments which limited the range of options. Pressure from politicians for more management attention to be paid to executive

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activity triggered bureau-shaping strategies to pass executive activity to executive agencies rather than the alternative of becoming hands-on managers of integrated departments (a move from A to B rather than from A to C in Figure 2.3). Senior officials did not seem to be pursuing exclusively self-regarding motivations in this context but a mixture of interest in their work and a view that this was the best way to make policy. Their actions were generally consistent with maintaining their position as the key policy workers in central government. Both perspectives underemphasise the role of officials in the Efficiency Unit with an interest in developing reforms that could be implemented, making the initiation of Next Steps indirect bureau-shaping. They also neglect the role of staff in some executive agency candidates who wanted greater autonomy, which was significant in setting up 'pull' pressures for change in some bodies with non-mainstream civil service staff, especially specialist research bodies.

The interaction between politicians and senior officials in the institutional environment of central government departments was a key influence on the reform. In this light, Dunleavy's original bureau-shaping model places too much emphasis on the unconstrained action of officials and neglects the role of politicians. In contrast, the alternative account of Next Steps by Marsh *et al*. (2000, 2001, pp. 159–61) places too great an emphasis on politicians commanding the reform and pushing through change. The difference between the findings of this study and the work of Marsh *et al*., in part, reflects a difference in methodological approach. They gave greatest importance to interview material, noting 'Certainly, evidence from our interviews indicated the role of politicians was crucial in the evolution and development of Next Steps. This, of course, contradicts the argument that the process was driven by bureaucrats and, more broadly, it fundamentally questions the thesis that it is civil servants who are able to shape events or issues in their, as opposed to the minister's, favour' (Marsh *et al*., 2001, p. 159). In contrast, the method adopted in this study uses interviews, other statements by actors and the choices of actors to identify misrepresentation or partial presentation of events. This approach reveals that politicians triggered the process of change through their dissatisfaction with the status quo but senior civil servants adopted the specific executive agency reform as a bureau-shaping strategy.

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The executive agency reform was a revolutionary change to the organisational structure of central government. Around 83 per cent of changes were mitigated or pure executive agency creation. The principal exception was the 37 per cent of trading agencies that arose from nominal change. In 2001, 57 per cent of civil servants worked in executive agencies, broadly consistent with the half to three-quarters suggested in the bureau-shaping perspective but less than the 95 per cent suggested by the public interest perspective. Consistent with bureau-shaping, on average, 70 per cent of senior officials in each department ended up working in the parent department rather than in executive agencies. Whilst many, relatively small, executive agencies handled non-routine work, this work was often specialist, scientific research work, rather than policy work traditionally handled by senior civil servants.

Executive agencies all had the two principle features of the model, semi-detached organisation with a chief executive and specific accountability framework including performance targets and an element of personal accountability by the chief executive. However, as Chapter 4 sets out, the operation of these systems was varied. In particular, trading agencies and executive agencies that were peripheral to their departments' activities were better able to develop their own systems than non-trading bodies that were mainstream to their departments. The Benefits Agency was an example of the latter kind of body but shared the principal features of the model with other executive agencies.

The chief executives personified the delegation of management and corporate accountability in executive agencies and were a distinct new group of officials in central government. They did not have the long tenure of traditional civil servants and there was some shift in responsibility, and potential praise or blame, from departments and ministers to them for operational performance. However, the more politically salient issues of interest to those in Parliament, users, citizens and the media typically involved some form of joint departmental and executive agency responsibility for performance. Although these issues were generally the exception rather than the rule, chief executives trod a fine line between using the frameworks in which they operated to focus on improving performance against targets, and, at the same time, exercising sensitivity to informal signals from ministers and officials in their parent departments about

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how to handle matters of political sensitivity. Chief executives with knowledge of the Whitehall village as 'insiders' or those from 'outside' who were able and willing to adopt this method of working were able to avoid highly public disputes. Similarly, departments did not generally use the 'harder edged' aspects of the accountability system, including non-renewal of contract, because they realised the difficulty of fully separating responsibility for strategic and operational performance.

The highest profile dispute about chief executive responsibility occurred when both these norms were broken and the 'outsider' chief executive of the Prison Service clashed with a Home Secretary seeking to avoid blame for poor performance. The dispute ended in the chief executive being removed and some damage to the Home Secretary's reputation for competence. This case demonstrated the difficulty of shifting blame for performance in areas of political saliency. However, the Home Secretary did not resign and no other Secretary of State has resigned for inadequacies in setting the strategic frameworks of executive agencies. These findings are consistent with broader work on ministerial resignations which suggest that ministers did not, in general, resign because of poor departmental performance (Dowding and Kang, 1998). In this context, executive agency working was not a way for ministers to shift blame to chief executives of to executive agency enable them to resist pressure to resign. Such a reform was, in most cases, not necessary to avoid the risk of pressure to resign because of poor administrative performance.

Individual executive agencies' economy, over the period as a whole, is more consistent with bureau-shaping than public interest hypotheses, as shown in Chapter 5. There was an improvement in economy during the late 1990s with real terms administrative costs falling by a mean score of 4.4 per cent between 1995/96 and 1997/98. However, the picture was mixed and, whilst non-trading agencies' administrative costs fell by 5.3 per cent, trading agencies costs rose by 8.2 per cent. By 2001 in the Benefits Agency, despite falls in the late 1990s, real terms administrative costs were 9 per cent higher, and real terms programme costs were 13 per cent higher, than they were at the start of executive agency working. There were improvements in some aspects of the effectiveness of individual executive agencies, although there was substantial variation between

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bodies. According to their performance against targets, effectiveness was satisfactory or above in 88 per cent of cases in the late 1990s. However, broader measures of effectiveness provide a less positive characterisation of the Benefits Agency's work in paying the right money to the right people at the right time. The Agency was not associated with large improvements over the full range of its activities; long-standing problems that pre-dated the Agency remained. There was fraud and error amounting to about 7 per cent of the social security programme in the mid-1990s and around a quarter of those entitled to the main benefits handled by the Agency did not receive them. There was no demonstrable step change improvement in productive efficiency, contrary to the public interest expectation.

The semi-detached organisational structure enabled the Benefits Agency to develop its own pay and grading systems and working practices to make better use of some resources, improving aspects of service to users, notably the speed of processing claims. The external performance target regime affected the Agency's method of working, with Secretary of State's targets being reflected and developed through a system of internal management targets linked to performance pay for staff. Performance was improved by targeted effort in some areas but work that was not the principal focus of targets, including fraud and error in the early 1990s and the take-up of benefit, suffered as a result. The Department attempted to change the emphasis of the target regime to ameliorate poor performance in fraud and error but these efforts were only partly successful. Not all activities could be included in the target regime to inform management action, because such a regime would have been too broad to use as the basis for allocating effort. The tendency for 'unbalanced' performance focused narrowly on targets was partially reduced by civil servants in the Agency picking up on informal signals and not pursuing the logic of the target regime to its full extent. Ministers and staff in the Department co-operated in this practice, their assessment of the Agency's performance was broader than simple performance against targets. However, throughout the period, the targets were influential and principally reflected the objectives of the Agency that were prioritised by ministers rather than users or potential users of the service. In part, this situation led to continued inadequacy of some services and a very limited programme to boost the take up of benefit.

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The consequences of executive agencies for central government systemic performance were, in general, more consistent with bureau-shaping than public interest expectations, as discussed in Chapter 6. Although there was an improvement in central government real terms administrative costs between 1995/96 and 1997/98, between 1988 and 2001 overall real terms administrative expenditure rose 17 per cent and real terms total expenditure rose 32 per cent. There were substantial problems with public sector externalities, consistent with bureau-shaping hypotheses. Executive agencies' concern with their own activities led them to concentrate on e-government solutions with a narrow focus on their own users or customers. This approach limited the development of e-government with systemic properties to exploit the potential of the technology to achieve collective benefits across government. In the social security system, the Benefits Agency's focus on its own targets and distinctive working practices contributed to significant negative public sector externalities. These externalities included harm to policymaking and implementation because of poor information exchange between the Agency and the DSS Headquarters, which was particularly evident in the state pensions failure. Inaccurate information generated by the Agency was used by other bodies in the system and there were unfulfilled potential shared services, including the limited development of systemic e-government. The problems of systemic performance became even more salient after 1997 when the incoming New Labour Government changed the emphasis of policy towards employability which required more exchange of information in the system and a client focused delivery system rather than one based on processing individual benefits.

The Benefits Agency shared the two characteristic features of organisational separation and an accountability regime with all other executive agencies. In this respect, despite different working practices and contexts, findings related to the Agency are relevant to other cases. The organisational barriers to e-government suggest that several of the systemic performance issues were common to executive agencies. However, the problems of systemic performance were less important in executive agencies which were less integrated into programmes developed or delivered in co-operation with other parts of the public sector. These executive agencies were often peripheral, specialist, or had a focus on a clear external customer group and

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formed about half the total number of bodies. Within this group, trading agencies, which were a relatively small percentage of the total number of executive agencies, had substantial interaction with distinct customer groups outside of government, charging directly for their services. The operation of these structures and their effect on performance particularly merits further research.

The origin of the Next Steps reform, in part, as a 'bureau-shaping' strategy explains why central government overlooked its previous experience with similar arm's-length forms which pointed to some of the performance problems that eventually emerged. The experience with nationalised, public corporations suggested difficulties of setting a framework which provided these bodies with challenging targets to improve performance and which prevented intervention by ministers and officials contrary to the management freedoms granted to these bodies (Prosser, 1986, pp. 19–21). Similarly, the systemic performance problems were suggested by the long running problem of departmentalism in Whitehall. Departmentalism involved departments focusing too much attention on their own concerns to the exclusion of the broader consequences of their activities. This feature of central government was widely recognised as a problem by senior officials in the 1980s and 1990s (Marsh *et al*., 2001, pp. 124–30). Executive agencies intensified departmentalism by strengthening incentives for these bodies to respond narrowly to their parent departments' concerns and further fragmented the system by splitting up departments between policy sections and different executive agencies. However, the Next Steps report did not directly tackle the issue of the trade-off between improving individual and systemic performance.

The findings about executive agencies contribute to an emerging body of knowledge about New Public Management (NPM) that suggests some common themes across different components of reform in the UK. The importance of senior officials and politicians in developing and directing reform was a characteristic shared with NPM reforms in health, education, housing and social care. The reforms to set up corporate units with more performance measures and targets involved a minimum of consultation with actors outside of central government, except a few policy advisers (Bartlett *et al*., 1998, pp. 1–16; Pollitt *et al*., 1998, pp. 48–53). As with executive agencies, centrally set performance measures and ministerial appointment of

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members to run units reflected accountability systems dominated by executive politicians rather than service users or citizens (Ferlie *et al.*, 1998, pp. 204–10). Some of the side and perverse effects on performance were shared with other NPM structures (James, 2002). The corporate hospital and school units often appeared to have improved their own performance but created problems of co-ordination and created difficulties for each other including harming the provision of joint services (Pollitt *et al.*, 1998, pp. 74–5, 117–19). The unintended consequences of performance targets in focusing attention on what was targeted to the detriment of other valued outcomes was an increasingly salient issue across the public sector (Smith, 1995; Benyon and Edwards, 1999). Executive agencies brought these performance issues to the centre of government in Whitehall.

Section 2: Prospects for the future use of executive agencies

A complication in assessing the future use of executive agencies in the UK is the devolution of some responsibilities to Scotland and Wales in 1999 and, in an on/off manner since that time, to Northern Ireland. Of the 127 executive agencies at the start of 2002, ninety-two bodies reported to departments in England, twenty-one to the Northern Ireland Executive, twelve to the Scottish Executive and two to the Welsh Assembly (Office of Public Services Reform and HM Treasury, 2002, p. 60). The officials in the Scottish Executive and the Welsh Assembly remained civil servants after devolution, like those in England, but it is possible that, if more substantially different political and administrative arrangements develop, bodies in these areas will follow their own trajectory in the future. Northern Ireland executive agencies were staffed by the Northern Ireland Civil Service prior to 1999 and, in this sense, were always distinctive. However, if devolution has a chance to bed down, these bodies may develop further distinctive characteristics and a separate trajectory as a group.

The public interest perspective suggests that executive agencies are likely to continue to be politicians' preferred form for delivering central government services. The bureau-shaping perspective suggests that the forms will be stable as long as politicians do not reverse their concern with the management of executive activity, which could trigger bureau-shaping in the opposite direction. For example, the constraint could shift if politicians loose interest in managerialism

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relative to other priorities for government that compete for their attention. Whilst many of the findings in Part II were consistent with the bureau-shaping hypotheses, some factors affecting the course of reform were beyond those suggested by either perspective. These factors included the career incentives of officials in central units to come up with successful reform initiatives and 'pull' factors from staff in some specialist executive agencies who desired greater freedom. These pressures suggest that the executive agency model may be unstable in some, limited, contexts. More broadly, the systemic performance problems offer an opportunity for officials in central units to enhance their careers by suggesting additional structures to ameliorate the situation.

Two possible fundamental changes to executive agency working are to move away from the semi-detached organisational form by either rolling executive agencies back into departments or increasing their autonomy from departments. The full reintegration of executive agencies into their departments seems unlikely except in a few cases. There were a few examples of such a change in the late 1990s with the Securities and Facilities Executive and the Civil Service College being integrated into the Central Management and Policy Studies section within the Cabinet Office in 1998 and 1999 respectively. In the latter case, the reorganisation was intended to improve the links between training courses provided by the College and strategic personnel and other issues (Centre for Management and Policy Studies, 2001, pp. 2–5).

The pressure for more autonomy appears strongest in trading agencies which raise much of their revenue from distinct customer groups and in specialist research facilities staffed by non-mainstream officials. Demands for more autonomy by staff to respond to client groups were important causes of passing executive agencies to private ownership during the 1990s (Gains, 1999, p. 713). The changes in bodies that were privatised nearly always involved considerable input from the staff in the executive agency rather than external pressure (I1, Senior Official, Cabinet Office). Of the sixteen cases of privatisation, twelve were sold to private companies, two cases were management buy-outs, and two bodies had their management wholly contracted out to the private sector, as shown in Table 7.1.

In a central government system with a broadly stable set of executive agencies, issues of systemic performance are likely to be tackled by forms of co-ordination or central steering of activities, as outlined

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Table 7.1 Privatisation of executive agencies

	Executive agency (with date of change)
Twelve sold to private companies	Accounts Services Agency (1995), Agricultural Development and Advisory Service (1997), Chessington Computer Centre (1996), DVOIT (1993), HMSO (1996), National Engineering Laboratory (1995), Natural Resources Institute (1996), Occupational Health and Safety Agency (1996), Paymaster (1997), Recruitment and Assessment Services (1996), Transport Research Laboratory (1996), Warren Spring Laboratory (1994)
Two management buy-outs	Building Research Establishment (1997), Laboratory of the Government Chemist (1996)
Two contracted out management	National Physical Laboratory (1995), Teachers' Pension Agency (1996)

Source: Cabinet Office (1997b, 1998a, 2002b).

in Figure 7.1. The vertical dimension is the degree of central steering of the system by central bodies, ranging from strong steering by a central regulatory authority to weak central steering leaving individual executive agencies to their own devices. The horizontal dimension relates to the strength of arrangements between individual organisations for co-ordinating their activity, ranging from strong and enduring relationships in a network to weaker, sporadic, links. The four options in Figure 7.1 are combinations of positions at opposite ends of the two dimensions: sporadic links, networks, regulated sporadic links and regulated networks. All four forms were adopted to some extent in the late 1990s, although a trend is emerging towards more use of regulated networks relative to other forms, especially in the social security sector.

Sporadic links

In this arrangement, co-ordination between executive agencies is a matter for voluntary agreement between bodies to exploit particular opportunities rather than being part of longer term relationships. The links rest on mutually beneficial exchange and there is no use of authority from higher level units although these units may set up incentives to encourage executive agencies to co-ordinate their activities. The Treasury established new measures to 'join-up' central

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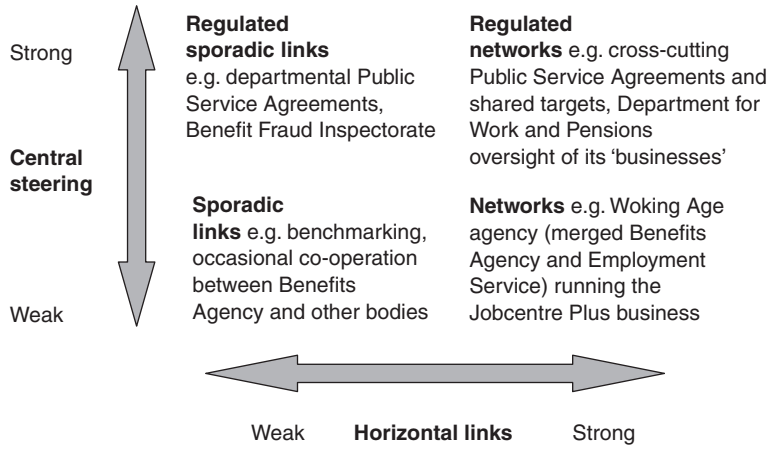

Figure 7.1 Structures for co-ordinating and steering executive agencies

government by providing budgetary incentives to finance projects involving joint working in the late 1990s. The £230 m per year Invest to Save budget funded innovative projects involving two or more departments and the £2500 m Capital Modernisation Fund was awarded, in part, to joint projects (PIU, 2000, box 9.1). In the Benefits Agency, an Invest to Save project developed electronic kiosks to present information about a range of services in a variety of locations outside of the Agency's premises (I13, Senior Official, Benefits Agency).

The Cabinet Office encouraged executive agencies to participate in a voluntary scheme to benchmark their performance against each other and private sector organisations from 1995. Executive agencies undertook self assessment rather than formal, external, assessment but it was hoped they might learn from best practice in other organisations and that comparisons between bodies might create peer pressure to drive up performance (Samuels, 1997, p. 3). The first phase involved thirty executive agencies in 1995–96, a second phase ran from April 1997 to January 1998 and included seventy bodies. A third phase was introduced to run for three years from 1998 involving further executive agencies (Samuels, 1998, p. 12). The Benefits Agency participated from 1996 and the commitment of senior staff was reflected in the chief executive's membership of the governing

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board of the European Quality Foundation which ran the scheme (Social Security Committee, 1998, question 153).

The contribution of benchmarking to solving problems of systemic performance was, however, not as great as its role in raising performance within the organisations. An analysis of improvement plans resulting from the process (Samuels, 1997, Annex C) reveals that two-thirds of the improvements were focused on changes to internal processes with only one-third focused on external relations with customers or other parts of government. The focus on external clients was most apparent in trading agencies. The voluntary nature of scheme made it difficult to use to resolve public sector externalities between bodies if they could not agree amongst themselves on the best course of action.

A possible way to facilitate voluntary co-ordination that has have not yet been tried is to encourage bargaining to remove public sector externalities (James, 2000, p. 341). This solution suggests that affected bodies could pay the producers of externalities to stop producing negative externalities as an alternative to regulation from a higher level body. The scheme is analogous to the general solution to the problem of externalities in markets when bargaining is without significant cost and there are clearly defined property rights (Coase, 1960). In this general case, those suffering the effects of an externality band together to try pay the people causing the externality to change their behaviour. For example, people living near a factory which pollutes their air offer to pay the factory to use an alternative, non-polluting, production technique. The allocation of property rights determines who compensates whom. If local residents do not have the right to clean air then they pay the factory to stop polluting. In the case of the Benefits Agency, the organisation worked towards its own targets and, as a side effect, pushed up fraud in local authorities' administration of Housing Benefit by producing faulty information which was then used by them in their processing of cases. A hypothetical bargaining solution to this negative public sector externality would involve the department deciding whether local authorities have the right to accurate information or whether they must pay the Benefits Agency to get it. The drawing up of contracts involving exchanges of budget for information could then be left to the local Benefits Agency offices and local authorities on the ground. These bodies are likely to be in a better position to know the value of

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the accurate information to their work with, for example, the value differing depending on levels of attempted fraud in the locality. Provided the costs of arranging these contracts are not too great, they could be used to deal with the externality in a potentially less costly way than a regulatory solution entailing a higher level body having to intervene to insist on the Agency improving the provision of information.

Networks

Networks are an alternative to sporadic links consisting of more enduring partnerships between organisations including professional ties between individuals in different organisations, staff exchange and arrangements for managing common interests. There are a variety of perspectives on how networks and partnerships operate in the public sector (Kickert *et al.*, 1997; Bardach, 1998). UK central government increasingly used several different forms of networks in the context of executive agency working.

The strongest form of network organisation was the horizontal merger of executive agencies, at the same time maintaining the vertical separation between departments and these bodies. About twenty executive agencies were merged with other bodies since the reform began, although the picture is complicated by occasional de-mergers. The executive agencies involved in horizontal mergers were the Central Computer and Telecommunications Agency, Central Science Laboratory, Central Statistical Office, Coastguard, Food Science Laboratories, Marine Safety Agency, Property Advisers to the Civil Estate, The Buying Agency and thirteen bodies in the Ministry of Defence (Cabinet Office, 1998a; Minister for the Cabinet Office, 2000, p. 9; Cabinet Office, 2002b). The rationales for these mergers included avoiding duplication, achieving economies of scale or better co-ordination. The reasoning is illustrated by the case of the creation of the Office of Government Commerce, which brought together bodies including The Buying Agency and the Property Advisers to the Civil Estate. The main justification for the change was to create a 'one-stop shop' for procurement in central government and to counter ineffectiveness and inefficiency from fragmented procurement systems, especially in IT. Individual departments and executive agencies did not develop this expertise themselves because they only occasionally needed to engage in particular forms of

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procurement. The Office was further intended to ameliorate the problem of individual departments and executive agencies commissioning IT and other systems without sufficient regard of the need to have compatibility with systems in other bodies which was a barrier to the development of systemic e-government.

There were attempts to improve the integration of careers across different departments and executive agencies. In general, civil servants did not think that moving to an executive agency would assist their promotion to the most senior grades (Trosa, 1994, pp. 48–9). The Senior Civil Service, set up in 1996, was intended to encourage civil servants to take a broader perspective than the body in which they worked and to promote the movement of staff across central government bodies. The Civil Service Management Committee, later renamed the Management Board, actively managed the top 600 postings. The Cabinet Secretary suggested that, to reach the upper ranks of the Service, staff needed experience in working in frontline delivery or operational management and of working in more than one organisational culture (Wilson, 1999, section 16; PIU, 2000, section 4.11). However, in most departments, there was no 'critical mass' of civil servants with extensive experience of working in executive agencies. The percentage of staff moving on loan outside their own department was just under 7 per cent each year in the 1990s (PIU 2000, figure 8.2).

Regulated sporadic links and regulated networks

In a broad definition, regulation is often used as a synonym for control. However, in this section, regulation is used to mean a body using some form of authority to steer executive agencies strategically at arms-length. Regulation of sporadic links involves steering executive agencies that occasionally co-ordinate activity amongst themselves and contrasts with the regulation of networks, where there are more extensive and enduring links between executive agencies. In the UK public sector as a whole, there was an increase in the resources devoted to the use of regulation of public bodies alongside New Public Management changes in the 1980s and 1990s (Hood *et al.*, 1998, 1999, 2000). In central government, whilst central regulation of pay, grading and management practices were relaxed alongside the move to executive agency working, new or reformed regulatory systems emerged. Indeed, the executive agency model itself incorporates a form of regulation of sporadic links or networks

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in the relationship between a parent department and the executive agencies within its direct purview.

The departmental network form of regulation was used to sort out some disputes between executive agencies in the DSS, where the executive agencies and the Headquarters were all represented on the Departmental Management Board. Matters of common interest were discussed by the Board, and Headquarters staff and ministers occasionally intervened to put pressure on executive agencies to work more co-operatively (I14, Senior Official, Department of Social Security). Departmentally led initiatives to encourage longer term co-operation and network working were also increasingly pursued in other departments. One of the most developed forms of regulated network was the Driver Vehicle Operator group established in 1999 to link the four executive agencies handling matters related to vehicle transportation in the Department for Transport, Local Government and the Regions. The group was chaired by a departmental official and included all four chief executives. According to officials involved in the initiative, executive agencies' independence of action was curtailed by requiring them to discuss and, if at all possible, to take into account the effects of their action on other bodies (Kutlu, 2001, pp. 167–8). The group assisted the development of common services including a joint website for interacting with service users (Office of Public Services Reform and HM Tresury, 2002, p. 25).

The central units of the Cabinet Office and Treasury intervened to improve co-ordination between executive agencies, but this was normally to facilitate sporadic links rather than to set up and influence networks of bodies. The Cabinet Office did not generally intervene using formal authority and, where more formal systems were used, they were predominantly focused on improving individual bodies' performance rather than systemic performance. The Cabinet Office required executive agencies to gain accreditation under the Investors in People scheme, demonstrating that they had systems for training employees and developing skills. By 1998, thirty-two executive agencies had been fully accredited and all were expected to undergo the process by 2000 (Cabinet Office, 1998a, pp. 8–9). By April 1999, all Benefits Agency staff worked in units recognised by Investors in People (DSS, 1999a, p. 57). However, the Investors in People scheme was largely focused on individual executive agencies' performance rather than systemic performance. Similarly, the

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Citizen's Charter scheme, later renamed Service First, required executive agencies to develop their own standards for services, monitor performance against them and raise performance if it was unacceptable. The standards were mostly focused on individual bodies rather than standards for services involving the work of several organisations (IA7, Senior Official, Cabinet Office). In the Benefits Agency, these central standards influenced the Agency's regime and the Unit was able to block proposals by the Agency if it felt they were not setting the right standards (I13, Senior Official, Benefits Agency). For example, some targets were initially set to cover 60–70 per cent of customers. However, the Citizen's Charter Unit recommended that the quality of service should be achievable for 100 per cent of clients. To fulfil this requirement, the Agency had to lower the standard set to have a realistic chance of achieving the higher percentage of clients covered (NAO, 1998b, p. 44).

The Cabinet Office produced annual public reports collating the performance of executive agencies as a group, including performance against targets. However, reporting concentrated on individual performance rather than developing measures of performance in sectors of government involving the activities of more than one executive agency. Whilst the Cabinet Office attempted to set up comparative measures of performance these were not fully developed because of difficulties in creating measures that were fully comparable across different bodies. Instead, voluntary co-operation with the benchmarking scheme was encouraged and there was no requirement that executive agencies should participate (I3, Senior Official, Cabinet Office).

The Treasury kept strategic oversight and control centred on the public expenditure system although much of the responsibility for dealing with executive agencies was handled by departments rather than involving Treasury intervention (IA1, Senior Official, HM Treasury). A more systematic approach to regulating central government as a network, including executive agencies, emerged in the late 1990s with the Public Service Agreements (PSAs) regime. PSAs arose from the Comprehensive Spending Review of 1998 and were intended to provide an overall umbrella for setting and monitoring departmental and executive agency objectives, targets, outputs and outcomes (Chief Secretary to the Treasury, 1998, pp. 1–3). PSAs are public documents and departments have to report progress against

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targets to the Ministerial Committee on Public Services and Public Expenditure (PSX) (PIU, 2000, section 7.18).

Whilst most PSAs relate to individual departments, there was an attempt to improve the treatment of policies and services straddling organisational boundaries. Departmental PSAs include a small proportion of objectives and targets that are shared by more than one department and its executive agencies. There are 'cross-cutting PSAs' containing sets of joint objectives and targets for programmes in a few areas. There were initially twenty-eight PSAs based on departmental boundaries with three cross-cutting PSAs in criminal justice, drugs and help for young families. In total, there were fifty targets held jointly by two or more departments out of several hundred and PSAs predominantly reflected separate departmental processes (PIU, 2000, box 9.1). However, the PSA regime better integrated the Benefits Agency's performance plans with broader systems. The Agency's targets were incorporated in the broader Department of Social Security PSA and the body instituted a new Performance Management Regime from April 2000 to take account of this development. The shared objectives and targets resembled the arrangements already in place between the Agency and the Employment Service for delivering Jobseeker's Allowance. But there was a limit to how far targets could capture all the elements of working with other bodies which, combined with multiple and conflicting targets, limited the extent to which this approach facilitated better co-operative working (I14, Senior Official, Department of Social Security).

There were attempts to increase the regulation of executive agencies by bodies other than departments and central units. The National Audit Office (NAO) was important in highlighting some of the systemic problems of performance that affected the 'value for money' of government. Whilst the resources used in financial audit were largely static, the NAO directed more resources to 'value for money' studies in the 1990s (Hood *et al.*, 1999, pp. 87–9). The NAO revealed the effect of inaccurate information supplied by the Benefits Agency's on the administration of Housing Benefit (NAO, 1997b). However, it was difficult for NAO to get bodies in central government to tackle these problems because it had no direct authority to mandate action. Instead the organisation operated primarily through a mixture of informal pressure and publicity (I5, Senior Official, National Audit Office; I12, Senior Official, National Audit Office).

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The Benefits Agency was subject to more regulation than most executive agencies and had a specific regulator, the Benefit Fraud Inspectorate (BFI), set up in 1997 to monitor the Agency and bodies working with it in the social security system. The BFI had a mandate to examine individual bodies' performance and to take a systemic perspective, in particular on the level and causes of fraud and error in the system (Secretary of State for Social Security and Chief Secretary to the Treasury, 1999, p. 22). The Inspectorate cost £6.5 m to run in 1998/99 and employed 133 staff, a substantial investment in regulation (BFI, 1999b). The organisation was successful in uncovering the negative externalities affecting local authorities and the Contributions Agency (BFI, 1999d). However, it proved more difficult for BFI staff to bring about improvements, not having a line management relationship with the Agency or other bodies in the system and being unable to impose more extensive network based forms of working on the system (I11, Senior Official, Benefit Fraud Inspectorate).

A more substantial change towards the regulated network form of organisation in social security was developed from the late 1990s. The form was developed to ameliorate the problems encountered in the ONE pilot projects and better to fulfil the developing policy agenda of Welfare to Work which called for a more client focused delivery structure (I15, Senior Official, Benefits Agency). The pressure for the change came in part from entrepreneurial officials in the Treasury (I15, Senior Official, Benefits Agency). There was a cross-cutting review of Welfare to Work and ONE in the 2000 Spending Review which was led by a Treasury official and reported to the Economic Affairs, Welfare to Work (EA (WW)) and Public Spending (PSX) cabinet committees, which were both chaired by the Chancellor. Following the review, there was a major reorganisation to create the structures summarised in Figure 7.2. The Department for Work and Pensions (DWP) replaced the Department for Social Security (DSS) in 2001. The Benefits Agency and the Employment Service were merged to create a 'working age' agency operating the Jobcentre Plus 'business' (Benefits Agency, 2002, pp. 5–9). Jobcentre Plus integrated the delivery structures for providing benefit payments and job services for the 'working age' client group whilst the Pension Service took over responsibility for these aspects of Benefits Agency work. The other businesses in the Department were the

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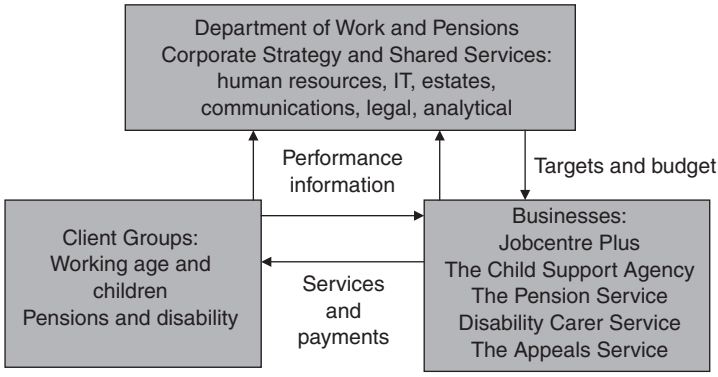

Figure 7.2 Department for Work and Pensions

Disability Carer Service, the Child Support Agency and the Appeals Service, the latter two being formed from existing executive agencies.

The changes involved reallocation of a few, relatively small, strategic tasks, from the executive agencies to the Department's Corporate Strategy and Shared Services section but maintained a semi-detached arrangement between policy development and the implementation of programmes. This reform continued a trend established in 2000, when the relatively small strategic parts of the Information Technology Services Agency were reintegrated into the DSS Headquarters at the same time as the bulk of IT work was let to a private firm, Electronic Data Systems, under contract. The individual executive agencies' Framework Documents were replaced with an overall management framework for the Department and its new 'businesses'. The 'businesses' remained semi-detached organisations, each headed by a chief executive and separate from those primarily responsible for policy work and ministerial support located in the Corporate Strategy and Shared Services section. However, the systems were intended to improve communication between these organisations, to encourage the provision of shared services and to bring about greater staff movement between the 'businesses' and the centre (I14, Senior Official, Department of Social Security; Lomax, 2002).

The recent changes marked a softening of the harder edges of the executive agency performance regime, with talk of 'linked communities' and a 'shared agenda' in the Department rather than a more

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simple divide between setting/monitoring targets and delivery (Lomax, 2002). In the Corporate Strategy and Shared Services section, new Client Director posts were established to focus on client needs and specify service priorities and targets. As under the Benefits Agency arrangements, there was regime of targets for the different businesses set by the Secretary of State linked to the PSA for the Department. Each business chief executive continued to be responsible for achieving the targets for their own business. However, the reform recognised more explicitly that a broader consideration of performance beyond quantifiable performance against targets was required to steer the system (I9, Senior Official, Department of Social Security).

It is too early to judge the effect of these structures on working practices but they involve a softening of the executive agency model rather than its replacement. The systemic performance consequences of the less 'hard edged' performance target regime, which further developed the informal practices operated during the time of the Benefits Agency, might reduce the incentive for staff to concentrate overly narrowly on targets to the detriment of other bodies' performance. Similarly, shared services may be more easily developed and maintained than in the more fragmented system. However, the arrangements do not seem to alter the dominance of ministers in setting priorities. Whilst the rhetoric is of 'client focused' services, the system appears to leave ministers rather than clients in the position of judging what clients want.

Section 3: Relevance of the perspectives and the findings for countries emulating the UK reform

The hypotheses drawn from the two perspectives offer a set of expectations about executive agencies that are of relevance to other countries' central government systems. To the extent that the hypotheses receiving empirical support from the UK case receive further support in these other cases they provide the basis for generalisation of knowledge about executive agencies. A feature of executive agency reform, consistent with broader NPM reform, was the international influence of organisational models and experiences, with countries attempting to learn from reform ideas and practices in other jurisdictions (Pollitt *et al.*, 2000; James, 2001). The public management

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section of the OECD devoted considerable attention to executive agency reform in briefings and study reports circulated to member countries. The UK was just one of several countries' experiences that were noted and other countries, particularly Sweden, have a long and well known history of the widespread operation of similar structures (OECD, 1995, 1998, 2002).

A good starting point for exploring the perspectives' hypotheses in different countries would be to examine OECD countries with, in broad terms, similar levels of governmental development, that embarked on reforms directly influenced by the UK experience. The UK Cabinet Office hosted delegations of officials and politicians from several countries who expressed an interest in the Next Steps reform (Goldsworthy, 1991, pp. i–ii). The Canadian Government explicitly drew on the UK experience in creating Special Operating Agencies from 1989, with seventeen bodies up by the end of 1996 (Thomas, 1996, pp. 1–2). In US Federal Government, proposals for Performance Based Organisations (PBO) were modelled, in part, on the UK initiative (NPR, 1996) and the Netherlands set up over twenty departmental agencies between 1991 and 1998, in part drawing on the UK reform (Pollitt *et al*., 2000). Executive agencies were adopted in Korea from 1999 in a reform influenced by the changes in the UK, although the bodies that emerged were substantially altered to fit local circumstances (Yoon, 2001). Japan emulated the UK initiative through a major reform to create Independent Administrative Institutions (IAI) from 2000 (Kaneko, 1999; Matsuda, 1999; Hirose, 2000; Hori, 2002).

The consistency of the hypotheses with developments in these countries is likely to be limited by differences in the context of reform, including the extent to which central government provides public services in a broadly similar way to the UK. Their potential relevance can be illustrated in the context of the US and Japan, although a full evaluation would require much more extensive research. The executive agency model offers a benchmark for comparing reforms in different countries. The potential for executive agency reform in US Federal Government was lower than in the UK because many services were not performed at this level of government including, for example, driver and vehicle licensing, vehicle certification and fire service training which were all handled by executive agencies in the UK. The potential for use of executive agencies was further reduced by the existence of similar structures pre-dating

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the PBO proposals. The system was already organisationally fragmented and the Government Performance and Results Act of 1993 had already required Federal bodies to develop strategic plans, performance measures, annual performance plans, and performance reporting (NPR, 1999). However, PBO were very similar to the executive agency model, involving separating service operation functions from their policy components and placing them in separate organisations reporting to departments. The organisations were given freedom to manage personnel, procurement and other services and were headed by chief executives, hired on a fixed term contract through a competitive search. Each organisation was given a three- to five-year framework with measurable goals and targets for improvement and the chief executives were held accountable for performance. Initially, seven functions were proposed for PBO status in 1997. However, the reform did not look like becoming such a significant change as the executive agency reform in the UK and only a few bodies were set up by the late 1990s (Friel, 1999).

In contrast to the US, the reform to create Independent Administrative Institutions (IAIs) in Japan looks like a major change. The activities handled by central government were more similar to those in the UK than in the US and there was less use of formal performance measures, so the potential for an executive agency reform was greater. Setting up IAIs involved separating strategic 'policy' functions from 'policy execution', with better corporate financial management and more explicit systems of performance planning and evaluation. Each IAI had a degree of management freedom with an arms length relationship with ministries but, unlike UK executive agencies, they were not formally part of central government departments and in this respect they resembled Non-Departmental Public Bodies. Progress was rapid; fifty-six bodies were set up in April 2000 with functions transferred including research activities, mint and printing operations and operational activities such as motor vehicle inspection. Further IAIs were planned in higher education (Hori, 2002, p. 10). Using the executive agency model as a benchmark, a study of Japan could explore whether these changes are 'pure', 'mitigated', or 'nominal' to assess the significance of the reform.

The public interest and bureau-shaping perspectives offer contrasting hypotheses explaining the reforms, although both perspectives

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hypothesise that actors within the administrative and political executive are important influences on the course of reform. Research could examine the hypotheses in the US and Japanese contexts. The public interest perspective's hypothesis that politicians lead executive agency reform appears to have some support in the US where the President, Vice-president and presidential appointees had particular prominence in developing reforms to the executive in the 1990s. The National Performance Review (NPR) run by the Vice-president proposed a wide ranging reform programme on the basis of a number of studies including observation of the UK experience (NPR, 1996). However, contrary to both perspectives, legislative as well as executive politicians were influential in decision making about reform. Congress formally created all executive departments including PBOs, determined the funding of programmes and had the power to reorganise government bodies. Any bureau-shaping influences on reform seem likely to have operated differently in the US to the UK. Whilst the US Senior Executive Service was a set of officials pursuing careers in Federal Government, their influence was reduced by the role of presidential appointees who constituted about 10 per cent of 7000 senior jobs, especially the most senior posts (Fesler and Kettl, 1996, pp. 179–213). Research could examine the institutional arrangement of legislative and executive politicians, political appointees and career officials, the effect on bureau-shaping strategies and the limited adoption of PBOs.

In Japan, both perspectives appear consistent with the dominance of actors within central government in initiating and developing the reform. The public interest perspective appears consistent with ministers' contribution to the development of IAIs through the Administrative Reform Council, 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. Whilst there was legislation to create the new bodies, the role of legislative politicians appeared very different from that in the US because of party based control in a Parliamentary system (Kaneko, 1999, p. 1). The potential for senior officials to embark on bureau-shaping strategies to bring about reform appeared to be high, like the UK rather than the US. There was a permanent elite civil service that was traditionally very influential in executive decision making (Muramatsu

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and Krauss, 1996, p. 241). Further research could assess how politicians and officials interacted to bring about a major reform in this context.

Finally, the public interest and bureau-shaping perspectives offer contrasting hypotheses about the likely consequences of adopting executive agencies. The bureau-shaping perspective's hypotheses receive support in the UK and, whilst the different contexts are likely to have a substantial intervening effect on performance outcomes, the findings suggest that a large majority of individual executive agencies are likely to be reasonably effective. However, a demonstrable, step change, improvement in effectiveness or productive efficiency over the old systems is unlikely and executive agencies are likely to be associated with worsening economy, except for short periods of time. Adopting executive agencies is likely to contribute to substantial systemic performance problems through public sector externalities in cases similar to the Benefits Agency involving working closely with other bodies. However, the net balances in trade-offs between changes to systemic performance and possible improvements in individual executive agencies' performance are likely to be better in bodies that are more peripheral to broader government activity.