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# The Executive Agency Revolution in Whitehall

**Public Interest Versus  
Bureau-Shaping Perspectives**

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palgrave  
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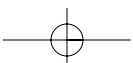
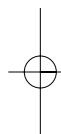
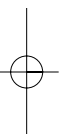
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# List of Abbreviations

BEM	Business Excellence Model
BFI	Benefit Fraud Inspectorate
CADW	Welsh Historic Monuments Agency
DSS	Department of Social Security
DSS HQ	Headquarters section of the Department of Social Security
DWP	Department for Work and Pensions
EA (WW)	Economic Affairs (Welfare to Work) Committee
ESRC	Economic and Social Research Council
FMI	Financial Management Initiative
HMSO	Her Majesty's Stationery Office
IAI	Independent Administrative Institution (in Japan)
ICI	Imperial Chemical Industries
IT	Information Technology
ITSA	Information Technology Services Agency
LCD	Lord Chancellor's Department
MAB	Ministerial Advisory Board
MAFF	Ministry of Agriculture, Fisheries and Food
NAO	National Audit Office
NPM	New Public Management
NPR	National Performance Review
NI	Northern Ireland
OECD	Organisation for Economic Co-operation and Development
PAC	Public Accounts Committee
PBO	Performance Based Organisation (in the US)
PCA	Parliamentary Commissioner for Administration
PIU	Performance and Innovation Unit
PSA	Public Service Agreement
PSX	Public Expenditure Committee
UK	United Kingdom of Great Britain and Northern Ireland
US	United States of America



# 1

## Introducing Executive Agencies

The increased use of executive agencies as a way of delivering goods and services that are under the control of central government politicians is a key part of 'New Public Management' (NPM) reform to public services. There is now a large, international, literature using the term 'NPM' in a range of different ways (Barzelay, 2000). However, an influential definition of NPM identifies a pattern of reform away from 'traditional' forms of public organisation that was evident in a set of OECD countries, including the UK, during the 1980s and 1990s (Hood, 1991; Hoggett, 1991; Dunleavy, 1994; Pollitt and Bouckaert, 2000). In the context of central government, NPM characterises change especially away from the use of departments to deliver public services. Traditional departments are headed by ministers who are elected politicians and represent the interests of the public. They develop policy based on their view of the public's demand for services and levy general taxation to fund these services, controlling the implementation of policy and provision of services through their departments. Civil servants staff departments and pursue long careers in the public service. They are organised in a hierarchical manner beneath ministers who monitor and command action on a day to day basis as they see fit. Traditional central government, as a whole, is subject to distinctive sets of rules and styles of management, set and enforced by central units, that emphasise input controls on activities, especially detailed budget and staffing controls.

NPM reform involves radical change to these 'traditional' structures. First, splitting up departments into corporate units with

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distinct tasks and resources. The units are free from many central government-wide rules and day to day interference by ministers and operate with generic, rather than specifically central government, management styles. Second, changing accountability and control systems. Instead of primarily controlling detailed inputs including budget sections or staffing, the systems use contractual frameworks specifying an overall budget level and a set of desired outputs against which the performance of the unit is monitored. Third, more use of competitive and market-like structures for provision of goods and services. These structures include competition with private firms, splitting purchasers of services from providers and charging users individually for the goods and services they receive rather than funding from general taxation. Fourth, reducing the reliance on a distinct group of civil service employees to deliver services by opening competition for appointments to candidates from other parts of government and the private sector. Associated with this change is a strengthening of incentives for civil servants to produce outputs, including pay and promotion linked to performance (Hood, 1991, pp. 4–5; Dunleavy, 1994; Pollitt and Bouckaert, 2000, p. 10; Christensen and Lægreid, 2001).

The analysis of NPM changes has developed at a high level of abstraction, noting the international pattern of change and the spread of similar forms rather than systematically exploring elements within the package of reforms. The attention of government and most academic commentators has tended to focus on the newest initiative rather than exploring the outcomes of reforms. Pollitt and Bouckaert (2000, p. 132) note that ‘the international reform movement has not needed results to fuel its onward march’, in the sense of support for further changes based on evidence of the consequences of reform. This book analyses executive agencies and executive agency reform, a key part of NPM that, since the late 1980s, has been an important development in UK central government. Although the use of similar forms predates the current wave of reform and is far from exclusively a phenomenon found in the UK, the UK experience provides a good starting point for accumulating knowledge that is of relevance to central government both in the UK and in other countries.

### **Section 1: The executive agency model**

The executive agency model is defined from the recommendations of a report by the Prime Minister’s Efficiency Unit, titled *Improving*

*Management in Government: the Next Steps* and the Government's statement accepting these recommendations (Hansard, 1988, col. 1149). The Next Steps report proposed 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, p. 9). The executive agency model has two main features:

- (1) An executive agency organisation, semi-detached from its parent department, with its own budget, freedom from some departmental regulations, freedom from ad hoc, day to day, intervention by the department, freedom from some central government-wide regulation, with the organisation under the direction of a chief executive recruited through open competition.
- (2) Executive agency accountability for the performance of specific operational tasks as a corporate unit, including output focused performance targets set by the parent department, and personal accountability of the chief executive for performance.

The partial organisational separation and accountability arrangements are opposite sides of the same coin. The accountability structures set out the bodies to which the executive agency is accountable in terms of authorisation for undertaking tasks, methods of reporting performance and praising or blaming those responsible. Each executive agency is held directly to account for 'operational' matters and outputs as specified in its operating framework whilst ministers in departments are held to account for deciding the overall aims of the executive agency and the broader policy framework in which the body operates (Efficiency Unit, 1988, pp. 17–19). Chief executives have personal accountability for operational performance and report results, with individual responsibility for the consequences of their actions and a portion of their pay, and in extreme cases continued tenure of their post, linked to individual performance. Ministers retain the right to alter the system and reorganise the status of executive agencies, for example, to fold it back into the department and to intervene in cases of extreme need.

The freedoms accorded to executive agencies differ between those that predominantly receive their budget through an allocation by the parent department and those that have freedom to trade by charging customers 'fees' for services (Efficiency Unit, 1988, p. 28). Trading agencies have freedom to raise revenue from their customers

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and to alter services in response to customer demand, forming an additional form of accountability to customers. Trading agencies provide information about services and may be sanctioned by customers who may choose not to purchase from the body. All executive agencies are subject to systems of central government-wide regulation, although some freedoms are granted from general rules on the use of resources and there is little regular reporting of performance to, or direction by, central units. Executive agencies are incorporated in the system of ministerial accountability to Parliament with chief executives reporting operational performance and being held responsible for their individual contribution to operational performance whilst ministers report strategic performance and remain responsible for strategic issues. The relationships between non-trading and trading executive agencies, a parent department, central units, Parliament, customers and users of services are set out in Figure 1.1.

The executive agency model embodies four aspects of the NPM forms. The executive agency organisational structure is semi-detached from the parent department and is a corporate unit with distinct tasks and resources. The accountability system reflects the NPM focus on outputs, rather than detailed inputs, and the use of a contractual framework. The divide between the parent department and the executive agency is a form of split between purchaser and provider in the case of non-trading agencies, with trading agencies having a market mechanism through payments for services by customers. Finally, recruiting chief executives through open competition involves

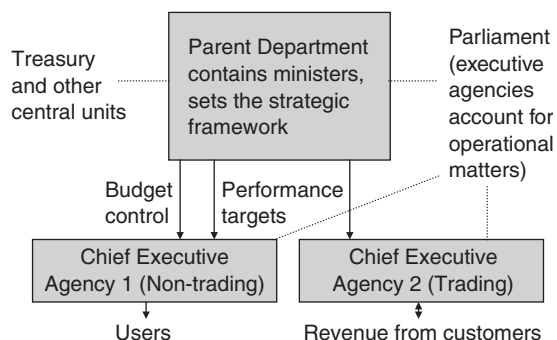


Figure 1.1 A parent department and non-trading and trading agencies

recruitment across the public and private sectors rather than relying on a group of career officials to run central government services. However, despite common elements, executive agencies are a distinctive combination of NPM forms requiring specific research on their development and operation.

The 'contract' between a department and an executive agency is different from a contract between a department and a private firm delivering public services. The executive agency 'contract' is between two bodies that are part of central government. Contracts with a private sector body are enforceable in a court in the case of a dispute (Domberger, 1998, pp. 160–2; Pollitt and Bouckaert, 2000, p. 94). Formally at least, the ultimate right to change the status of the executive agency rests with the minister in the department rather than involving exchange and agreement between equal parties. Trading agencies have additional contracts between the body and private customers which have stronger similarities with private sector contracts in this aspect of these bodies' arrangements. However, trading and non-trading agencies are not private bodies in the sense of ownership of resources being in private hands. Whilst the Next Steps report originally noted that executive agencies 'could be part of government and the public service' or might be better 'outside government' (Efficiency Unit, 1988, p. 9) the official announcement of the reform de-emphasised the use of this alternative, noting that 'agencies will generally be within the civil service, and their staff will continue to be civil servants' (Hansard, 1987–88, col. 1157).

The framework in which an executive agency operates is different from the 'contract' in NPM 'internal' or 'quasi-markets' between publicly funded and owned purchasers and providers (Domberger, 1998, pp. 157–80; Pollitt *et al.*, 1998, pp. 5–13). In these arrangements, the purchaser-provider contract sets out funding levels and the services expected in return and there is competition between providers, sometimes including competition with private providers. In contrast, the executive agency model does not, in itself, suggest competition between bodies to provide services, with the possibility of budget being switched to or from executive agencies depending on their performance.

Despite the strong association with NPM, the executive agency model has historical precedents in the UK and elsewhere. As with other aspects of NPM, it was not completely 'new' and the NPM

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characterisation of 'traditional' central government was a simplified representation. The authors of the Next Steps report noted similarities between their proposals and the 'arm's-length' relationships between central government and local government, nationalised industries and other non-departmental forms. These relationships consisted of frameworks setting out 'policies, objectives, the results required, and the resources available' with 'monitoring' of performance (Efficiency Unit, 1988, pp. 11, 17–18). However, the executive agency model embodies this framework in a distinctive way and the Next Steps reform was supposed to mark a step change in the use of this form, further suggesting the need for specific research on executive agencies.

There were substantial differences between local authorities delivering central government funded services and the proposed executive agency model. Local authorities had a statutory framework underpinning their separation from central government and more substantial areas of autonomy in setting their own objectives. Although this autonomy was in decline during the 1980s it was still substantial in many areas of activities (Wilson and Game, 1994, pp. 105–15). Nationalised industries typically had more formal independence from ministerial intervention and freedom from central government-wide rules than executive agencies, as well as sharing the characteristic of freedom to raise revenue with trading agencies. The industries had a statutory base rather than the framework in which they operated being open to direct revision by ministers (Prosser, 1986, pp. 17–36). Non-Departmental Public Bodies were the closest 'arm's-length' form to the executive agency model and this similarity was noted in the Next Steps report. Non-Departmental Public Bodies had a role in the processes of national government but were not government departments or part of one and operated, to a greater or lesser extent, at 'arm's length' from ministers (Pliatzky, 1980). Such bodies were established over a long period, including bodies set up in response to the Fulton Report's recommendation of 'hiving off' routine operational tasks to 'autonomous public boards' (Fulton Committee, 1968, pp. 61–2). However, they typically had greater formal autonomy from departments and ministers in setting their priorities, and had greater freedom from central government-wide regulations than the executive agency model. For example, the Next Steps report mentioned the Health and Safety Executive as having



some similarities with the proposed form of organisation (Efficiency Unit, 1988, p. 18). However, unlike the executive agency model, this body's constitution was set out in statute and it reported to a Commission of members appointed by ministers who proposed priorities for action. These structures involved a more indirect and constrained mechanism of ministerial control over the body than that contained in the executive agency model.

Specific research on executive agencies is particularly important because they have come to dominate the structure of UK central government. The Next Steps reform was formally launched in 1988 and, in 2001, 126 executive agencies employed almost 60 per cent of all civil servants. The change appears to be revolution for 'Whitehall', the colloquial term for UK central government after the region of London in which many senior ministerial and official staff are located, although the bulk of officials in executive agencies work outside of this geographical area. Executive agency working is the context in which more recent central government reform initiatives were introduced. The prospects for the use of information technology to provide 'e-government' and to promote 'responsive' government that 'efficiently' produces the goods and services that citizens want (Minister for the Cabinet Office, 1999, pp. 6–7) will be strongly influenced by these structures. The UK experience is of further importance because the executive agency model has been influential internationally. Several countries have emulated the UK reform to varying degrees or embarked on their own similar programmes (Pollitt and Bouckaert, 2000; Pollitt *et al.*, 2000; James, 2001; Talbot, 2002).

## **Section 2: The scope of the study**

This book addresses three key questions about executive agencies as they have been used in the UK since 1988.

First, why did the executive agency reform occur? At the start of the reform, a Parliamentary Committee described the Next Steps report's proposals as 'the most ambitious attempt at Civil Service reform in the twentieth century' (Treasury and Civil Service Committee, 1990, p. v). However, the reform of UK central government is conventionally seen as very difficult to achieve, in part because of resistance from those operating the Whitehall machine (Hennessy, 1989, pp. 622, 627). The initial scepticism about the

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prospects for change and the eventual, apparently radical, outcome of the Next Steps reform presents the puzzle of identifying the causes of the reform.

Second, how has the use of executive agencies developed in central government? Commentators noted the outcome '... 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, 1990, p. 82). However, the government declared victory as early as 1994, stating 'The success of Next Steps has been in its effective implementation' and claiming that '... 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, pp. 12–13). Despite this self-congratulation, there has been little systematic assessment of whether the reform transformed the formal structures and working practices of central government. The executive agency model offers a benchmark against which developments can be assessed.

Third, have executive agencies improved the performance of central government? The principal assessment by government concluded '**The agency model has been a success** [bold in the original]. Since 1988 agencies have transformed the landscape of government and the responsiveness and effectiveness of services delivered by government' (Office of Public Service Reform and HM Treasury, 2002, p. 10). This emphatic and sweeping judgement was principally qualified by the view that executive agencies and departments had, in some cases, become too 'disconnected'. However, the report did not support its bold conclusion by providing systematic information about the performance of executive agencies. Performance is significant at two levels, the level of individual bodies and the level of central government systemic performance. Individual performance relates to distinct executive agencies and systemic performance consists of the consequences of individual executive agencies' actions for the performance of other bodies, including departments, and the interaction effects between executive agencies.

Performance at both levels can be assessed using conventional criteria of economy, efficiency and effectiveness. Economy is the input used in the activity, including the budget and staffing of individual executive agencies and other parts of central government.

Effectiveness is evaluated in terms of the achievement of central government's objectives for individual executive agencies and for other bodies in government. There are several ways of assessing efficiency and a distinction is often made between allocative efficiency, which assesses the extent to which people get what they want, and productive efficiency, which is the ratio between inputs and valued outputs or outcomes (Dowding, 1995, pp. 35–41; Pollitt and Bouckaert, 2000, pp. 97–133). Productive efficiency is the main focus of inquiry in this study, partly for the practical reason that evidence about economy and effectiveness can be combined to produce evidence about this form of efficiency and partly because many of the benefits from the reform suggested by the Next Steps reformers related to this aspect of performance.

As well as addressing these three questions, two perspectives on executive agencies are evaluated. The public interest and bureau-shaping perspectives are each set out in Part I to provide hypotheses about the reasons for the executive agency reform, the outcomes of reform and consequences for performance. To the extent that the perspectives' hypotheses receive support from practice in the UK they offer the potential to build cumulative knowledge about executive agencies though evaluating them in other contexts. There are many approaches to public sector organisation and reform that offer the potential to generate such perspectives (for general surveys of approaches see Caiden, 1991; Lane, 1993; Howlett and Ramesh, 1995). However, the public interest and bureau perspectives offer contrasting and influential views.

The public interest perspective was presented by the Next Steps report and the Government's statement formally accepting its recommendations in 1988. To explain the reform, the perspective suggests that politicians in the Government interpreted the public interest as being furthered by executive agencies. Politicians saw this form of organisation as offering a substantial improvement on traditional departments' treatment of executive activity. Civil servants then neutrally implemented their plan. The perspective views the reform as a fundamental change, with the outcomes improving the economy, productive efficiency and effectiveness of public services handled by individual executive agencies with beneficial effects on the systemic performance of central government. There has been little attempt by government or academics systematically to assess

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this official view and whether the expectations of the Next Steps reformers were met in practice.

A radical alternative to the public interest perspective is offered by the bureau-shaping perspective, developed from the bureau-shaping (Dunleavy, 1985, 1986, 1989a,b, 1991) and budget maximising (Niskanen, 1971) rational choice models of the public sector. Rational choice models focus on the instrumental action of individuals, and their interaction, within institutional structures that set the opportunities available to them. Whilst other alternatives to the 'official' public interest perspective are possible, a rational choice perspective is particularly worthwhile because of the relative scarcity of such work on the UK public sector. Rhodes notes that although rational choice offers a 'challenge to the orthodoxy' there have been 'few such studies' and any potential that the approach might have 'has not yet been realised' in a 'major way' (Rhodes, 1997, p. 175). In particular, the potential of Dunleavy's bureau-shaping model has been noted (Parsons, 1995, pp. 317–20; John, 1998, pp. 129–36). The bureau-shaping perspective seeks to release some of the potential of the rational choice approach for exploring executive agencies.

To explain administrative reform, Dunleavy suggested that officials embark on 'bureau-shaping strategies' to shape their bureaus so that they undertake favourably valued policy work and offload undesirable activity to other bodies (Dunleavy, 1991, pp. 200–5). The bureau-shaping perspective on executive agencies develops this insight to suggest that senior officials are concerned to organise their departments to maximise their policy work and, at the same time, to have as large as possible a budget associated with routine operational activity. However, ministers, who are also located in the departments, constrain the organisational options available to senior officials. The perspective suggests that, during the 1980s, ministers became increasingly dissatisfied with the lack of attention senior officials paid to the management of operational activity because of their preoccupation with policy work. Politicians demanded that senior officials pay more attention to managing the activity that their departments were responsible for handling. However, instead of giving up policy work to concentrate on management, senior officials passed on operational activity to executive agencies as a 'bureau-shaping' strategy to concentrate on policy work. Unlike the public interest perspective, Government politicians did not have a specific

plan for an executive agency reform which was then implemented by civil servants. Instead, politicians triggered a change and senior officials were central to shaping its form as an executive agency reform.

The bureau-shaping perspective is more pessimistic about the consequences of executive agency reform for performance than the public interest perspective. Instead of being the result of a search for an organisational form that would bring about a significant improvement over existing structures, reform was the result of a bureau-shaping strategy. According to the perspective, the incentives facing officials in individual executive agencies lead them to budget maximise, improving effectiveness but worsening economy and leaving productive efficiency unchanged. At the systemic level, as well as a deterioration of economy, executive agencies do not take into account the consequences of their activities on other executive agencies and departments that are not part of their own narrow performance regimes, setting up public sector externalities that damage central government systemic productive efficiency and effectiveness.

### **Section 3: The methodological approach**

Part II of this book addresses the three questions about executive agencies and assesses hypotheses drawn from the two perspectives by exploring the practice of UK central government since 1988. Not all aspects of the perspectives are reflected in the narrower hypotheses but they encapsulate key elements of each perspective. It is not possible to use experimental studies or to fully control the context in which cases are explored, for example to evaluate the performance of activities identical to those handled by executive agencies undertaken by a traditional departmental form. Instead, the empirical assessment uses a range of methods to evaluate the hypotheses including surveys of executive agencies and case studies. Obtaining the sort of evidence necessary for such an empirical assessment is notoriously difficult because sources are fragmented and incomplete (Pollitt and Bouckaert, 2000, p. 131). However, reform is characterised by the number and type of executive agencies, nature of executive agency creation and location of staff after the changes. The operation of the executive agency model and performance of these bodies is assessed in terms of changes in budget, staffing and

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performance against targets. The survey is supplemented by more fine-grained case studies, in particular focusing on the social security sector and the largest executive agency, the Benefits Agency. The case-study approach uses a range of sources of evidence including material from the survey, interviews and analysis of internal and published documents. Whilst conclusions from case studies must not be over-generalised, the approach facilitates the gathering of evidence about relationships that are important for identifying the interaction of actors and institutions that brought about the changes to evaluate the explanations of reform. The approach provides an insight into the relationship between the executive agency model's structure and consequences for economy, productive efficiency and effectiveness at the individual and systemic levels.

Assessing the performance consequences of reform is particularly difficult because the objectives of government are difficult to identify where these are not written down, and written objectives do not always reflect the full range of desired outcomes. Reasonable starting points are the 'objectives', 'aims' and 'targets' contained in executive agency, departmental and programme reports. An assessment of the systemic consequences is hampered by the lack of a document with an authoritative statement of the relation between objectives across government that could be used to rank their importance where they conflict. However, by using other measures of priorities including statements by ministers and officials, a judgement about tensions between objectives can be made. This approach is used to explore the effect of the Benefits Agency on systemic performance in the social security sector.

Official statements and interview material are not sufficient for uncovering what happened during the period, particularly for establishing actors' motivations and interests when they had an interest in conveying a particular version of events. For example, comments by senior officials in the Cabinet Office that Next Steps was a success (Kemp, 1990; Butler, 1991, 1994) need to be viewed in the light of their responsibility for undertaking the reform and career and other reasons for wanting to portray the changes as successful. Official statements and interview material is useful when it is cross-checked with other sources of evidence. Important alternative sources of evidence are the actions of individuals which usually, although not always, have a higher cost for actors than making statements

because they imply that alternative actions must be forgone. Actions may be more likely to reflect underlying motivations and interests than 'talk' which may be relatively 'cheap' in these terms. Actions include choices about organisational arrangements and career choices by officials. For example, whether officials who were involved in bringing about the reform eventually ended up working in executive agencies is an indicator of whether they liked the type of work undertaken in these organisations, although not, by itself, enough to establish this connection.

Actions, by themselves, may not always be a reliable guide to motivations and interests. The structure of a situation in which a choice of action is made may encourage strategic misrepresentation of interests to try and gain longer-term advantage. Alternatively, the structure may suggest a chosen outcome is more desired than one that is not chosen despite the fact that the one that is not chosen is more greatly desired. An example of this problem occurs in situations resembling the well-known prisoners' dilemma game. In the two player version of this game, self-interested individuals A and B are faced with a choice between co-operation and defection with personal payoffs from the outcomes of their choices. If A co-operates and B does not, this is the worst outcome for A and best for B. If B co-operates and A does not, this is the worst outcome for B and best for A. The second worst outcome for both is if they both do not co-operate. The second best outcome for both occurs if they both co-operate.

In the game, the individuals cannot co-ordinate their actions and, given the structure of the individual payoffs, they compare the outcome from co-operating or defecting under the possible outcomes of choices for the other player. This comparison leads each player separately to choose to defect. The resulting joint outcome of double defection brings a lower payoff for each individual than would have been achieved if they had chosen to co-operate. In this situation, observing the action of the individuals, by itself, is not a good guide for working out what is in the actors' interests (Sen, 1973, pp. 249–53). Whilst the game structure is hypothetical, the point that complex interactions between choices may determine action which is not in the best interest of the actors involved in those choices appears likely to be highly relevant to complex organisations like central government.

Combining different sources of evidence enables cross-checking of evidence relating to each question and hypothesis. In the light of this

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evidence, answers to the three questions and conclusions about the relative merits of the public interest and bureau-shaping perspectives are set out in Part III. This Part suggests that the perspectives and findings from this study are potentially useful for exploring the likely future use of executive agencies in the UK and for exploring executive agencies in other countries.