



The Prime Minister's
OFFICE OF PUBLIC
SERVICES REFORM

Better government services

Executive agencies in the 21st century

The agency policy review –
report and recommendations

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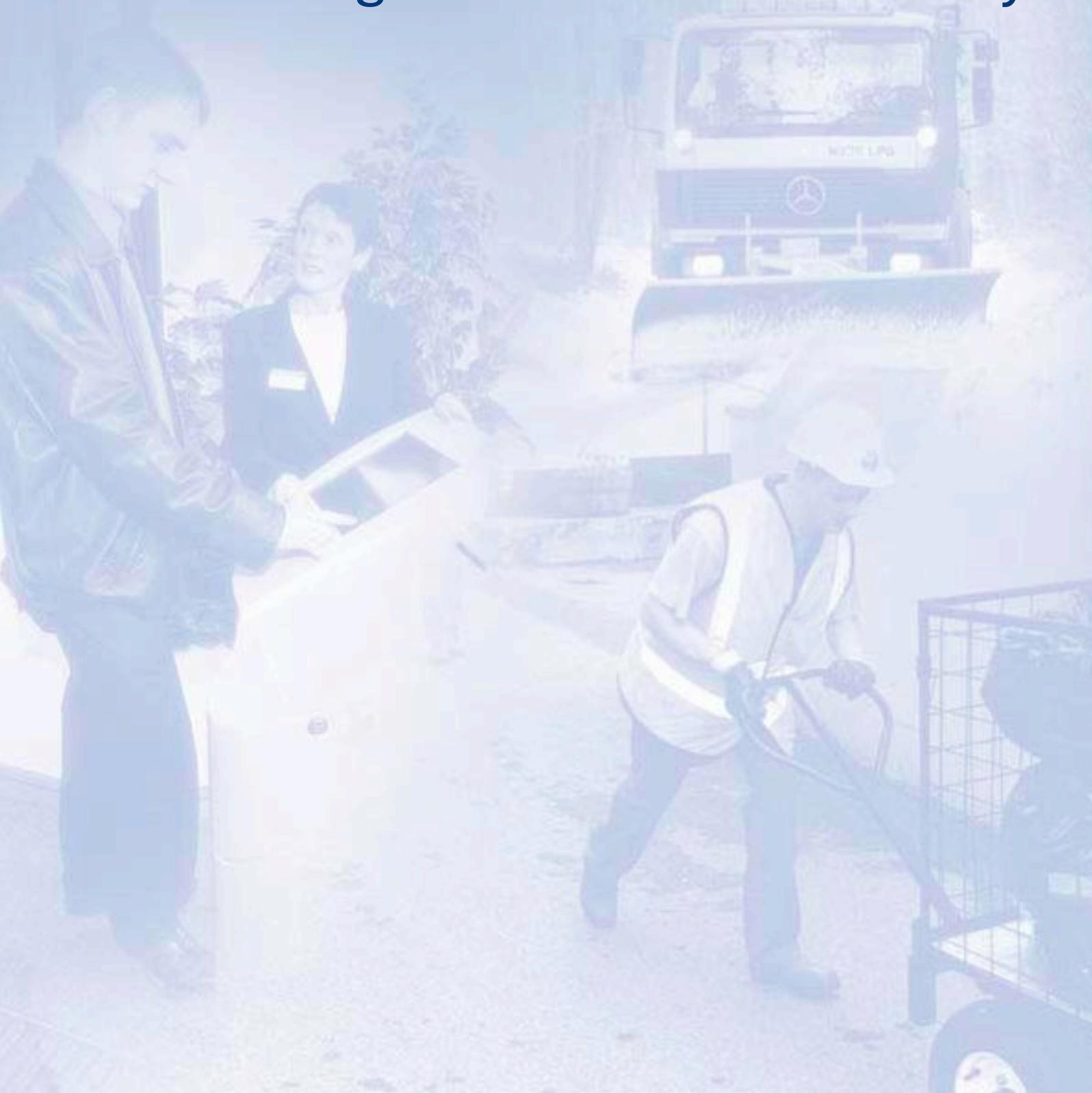
Jobcentre Plus staff support job-hunters in interactive opportunities for jobsearch at its offices across Britain and through its Jobseeker Direct phone service.

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Better government services

Executive agencies in the 21st century



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A woman with short dark hair is sitting at a desk in a job center, reading a newspaper. She is wearing a dark top and a bracelet. In the background, there is a large poster with the text 'Yes, you can get a job' and a smaller poster with a woman's face. The entire image has a blue tint.

Yes, you
can get
a job

The **Employment Service**, since April 2002 part of the new **Jobcentre Plus** service, provides services to employers, jobless people and others seeking to enter or return to the world of work. In 2001-02, the Employment Service helped well over 1 million jobless people find work.

Foreword

The Government's top priority is the improvement of public services. People's expectations of publicly funded services and products are rightly high and rising. In education, in the health service, in the criminal justice system and for public transport we have set clear strategies for improvement and targets and benchmarks against which to measure and reward rising performance. We have given local staff new freedoms to respond to local needs within these frameworks. We have created a strong focus on the performance of individual schools, hospitals, police forces and transport networks.

Many other aspects of everyday life are provided by central government itself – from drivers' licences to industrial and commercial patents; from managing our prisons and courts to building national roads; from social security benefits to income tax; from immigration controls to Ordnance Survey mapping. Nearly 80 per cent of civil servants are responsible for delivering such services, or for research or regulatory activities such as the veterinary laboratories and national planning controls. Around three-quarters of these work in 127 UK Executive Agencies. The way in which they do their jobs affects each of us every day in many ways.

It is difficult to believe that only 12 years ago the then 600,000-strong civil service was managed centrally as one uniform body. In 1988 Sir Robin Ibbs recommended setting up Executive Agencies to take responsibility for, and bring a new approach to, individual executive functions within government. This report considers how this policy works today and its effectiveness for the 92 agencies now managed by Whitehall departments. It will also be of interest to the devolved administrations and in relation to non-departmental public bodies, whose staff are not civil servants.

The delegation of responsibilities and powers to agencies has enabled staff to focus on the job in hand and to become outward-looking and responsive to customers. Some have achieved more than others. The report's central finding is important – that whilst agencies have been successful in achieving radical cultural change in central government to the benefit of customers, in too many cases their work has become disconnected from the increasingly well-defined aims of their Ministers.

The report sets out important recommendations to reconnect agencies with the strategic direction of their parent departments and we strongly endorse them. The recommendations do not seek to impose a single blueprint, but set out a number of key principles to guide departments in their relationships with their agencies. How and when these principles are implemented will vary according to the circumstances of different departments and agencies, because this is an area in which one size cannot fit all. However, it is crucial to the future improvement of public services – our highest priority – that this should be done in ways that reinforce, rather than reduce, the ability of local staff to deliver effectively and responsively.



Lord Macdonald
Minister for the Cabinet Office



Paul Boateng
Chief Secretary to the Treasury



Ordnance Survey data underpins £100 billion of economic activity in Britain each year. It helps businesses to reach their markets and public policy makers to target resources at national, regional and local level. In policing, for example, it helps officers to detect crime patterns, respond to incidents and catch offenders.

Executive summary

1. This review is about the delivery of services directly by central government. It assesses the model of executive agencies, which aimed to bring professionalism and customer focus to the management and delivery of central government services.
2. It coincides with a clear political imperative: achieving more effective public services. The Prime Minister has outlined four Principles of Public Service Reform that place a culture of delivery at the heart of the government's purpose.
3. Most services in the priority areas of health, education, crime and transport are delivered outside the civil service by, for example, hospitals, schools and police services. Yet many services of great interest to the public, from prisons to pensions and from passports to vehicle licences, are delivered by agencies within central government.
4. The reforms introduced following the report by Sir Robin Ibbs in 1988 that proposed the new executive agencies (outline history at Annex B) brought about revolutionary changes in the culture, processes and accountabilities of those services delivered directly by central government. A new revolution must now take place, within departments, to maximise the effectiveness of the agency model for the 21st century.
5. The agency model is very flexible. The 127 UK agencies, of which 92 report to Whitehall departments, are a heterogeneous group of service, research and regulatory activities managed within central government. The review's task has been to look at the success not of each individual organisation but of the principles underlying the model itself.
6. One size – of virtually anything – does not fit all agencies, so meaningful generalisations are difficult. Nevertheless, the review concludes that the agency model has been a success. Since 1988 agencies have transformed the 'landscape' of government and the responsiveness and effectiveness of services delivered by central government. But expectations are continually rising and changing.
7. The management principles that created agencies continue to be highly relevant. Executive functions within government should be carried out by a well-defined business unit with a clear focus on delivering specified outputs within a framework of accountability to Ministers. The responsibility for performance rests clearly with the chief executive and staff of the agency, as should the delegations to enable them to deliver. The focus of the organisation is downward and outward – towards their customers – rather than upward and inward, as was the case before 1988.
8. All agencies need a clear purpose connected to a framework of governance and accountability. To quote the Public Services Productivity Panel, 'effective accountability relationships are extremely important to delivering high performing organisations'. Clarity generates a

framework for trust; trust is essential to enable high and responsive performance. But such frameworks, and therefore the basis for such trust, do not always exist between agencies and their departments.

9. It is the review team's view that the main problem in achieving more effective performance now is that some agencies have become disconnected from their departments. This relationship is therefore at the heart of the review's recommendations.

10. Effectively resourced, strategic engagement between department and agency should facilitate:

- a shared understanding of overall and relevant cross-cutting objectives;
- the effective assessment and management of risk;
- the identification and removal of burdens or restrictions on agency freedoms which constrain effective performance at the frontline; and
- the development of incentives and rewards to continuous improvement across the department's activities.

11. Despite clear intentions to the contrary and good examples of working together, the gulf between policy and delivery is considered by most to have widened. The trust needed to delegate effectively requires mutual understanding and a 'no surprises' rule as well as clear frameworks. Without these, agencies cannot have the authorities they need to deliver Ministers' objectives or excellent services to their customers.

12. Agencies have in the past been treated as a self-contained project somehow separate from the more highly valued business of policy-making. But the two should be part of an integrated approach to supporting Ministers and serving the public, the whole adding up to more than the sum of the parts.

13. This need not – indeed must not – lead to blurred accountability, micro-management or double-guessing. Where detailed process controls replace effective strategic governance, they undermine agencies' ability to deliver responsive services. They can also create perverse incentives and inefficiencies.

14. The essential – and in too many cases missing – ingredient is a strong link to a process of intelligent business planning creating challenging and customer-focused objectives. This must be led from the top of departments and involve at its core the skills and experience of those responsible for delivery. It must provide the frontline with the tools, authorities, incentives and encouragement to deliver excellent services.

15. This report addresses this disconnection through chapters considering: the implications for the role of delivery agents in the landscape of departments; their governance; strategic performance management; and delegations and powers.

16. Agencies and their departments face a variety of circumstances. This report sets out a number of key principles which, if applied effectively, should lead to:

- structures appropriate to departmental needs, with use of the agency model where executive functions must be carried out by central government;
- processes across departments aligned and supported to achieve key outcomes;
- cultural change, with top teams in departments skilled in delivery and chief executives in agencies attuned to ministerial objectives;
- simpler governance connecting agencies with departmental aims and making better use of non-executive directors;
- clear strategic direction with a line of sight from agency targets to departments' key targets;

- a strategic framework for reporting on and responding to agency performance – good and bad;
- regular reviews focused on key outcomes rather than organisations; and
- forward planning and delegations providing maximum flexibility to manage and deliver services effectively and responsively.

17. None of this is radical in form but it would bring about radical improvements in strategy and service delivery if put into practice. It is relevant across all government activities. The principles enshrined in the review's 12 recommendations apply equally to all departmental activities, from the delivery of effective policy frameworks to the responsiveness of support functions, as well as to the delivery of services from non-agency business units within central government and to relations with non-departmental public bodies (NDPBs).

Recommendations

1. The agency model has changed the landscape of government. Extremely flexible, it provides the most responsive and accountable framework for delivering executive functions from within central government. **As a one-off, high-level review, departmental delivery mechanisms should be evaluated as part of the Departmental Change Programme to ensure that they are appropriate to the tasks required today and that effective governance structures are in place.**
2. Delivery experience is rarely found at the heart of departments. **Departments' leadership structures must be built around the skills and experience of delivery as well as policy in order to plan and manage all aspects of achieving outcomes for customers.**
3. The different skills needed for excellence in policy advice and in service delivery are not yet valued equally. Mutual support is essential and both are integral to achieving outcomes effectively. **Departments and agencies must work together to bridge the gulf between policy development and implementation and to fill high-level skills gaps in departments and agencies.**
4. The maintenance of simple, clear frameworks that add value and ensure active strategic engagement with each agency are essential to effective governance. **All agencies should have:**
 - **at least one discussion a year with their Minister;**
 - **a senior sponsor within their parent department to provide strategic direction and strategic performance management;**
 - **a two-way 'no surprises' rule;**
 - **external challenge and support introduced via the agency's management board;**
 - **clear roles for, and induction of, non-executive directors; and**
 - **a framework document reviewed at least every three years or as business plans roll forward.**
5. Departments and agencies must together ensure that agency targets are real, challenging and responsive to customers. **Departmental and agency target-setting must be aligned and timetabled to support Public Service Agreements and be supported by spending decisions. Key service deliverers should be fully involved in setting targets in Spending Reviews.**

6. **Where relevant, the balance between agency-specific and cross-cutting targets needs to be clearly specified and initiatives, such as electronic service delivery, clearly prioritised. A few key targets should reflect measurable performance linked to departmental objectives and service standards.**
7. **Departments must integrate policy development, service delivery and support services to achieve more than the sum of the individual parts. The central programme of quinquennial reviews of agencies and NDPBs should be abolished and replaced by business reviews of the end-to-end processes involved in achieving specific outcomes. The Departmental Change Programme should develop a methodology for defining and implementing such a programme of reviews. The cycle of reviews should be integrated with departments' business planning processes and specific priorities for review agreed as part of Spending Review decisions.**
8. **Strategic performance monitoring lacks both focus and response. In the context of the Departmental Change Programme, departments should define, together with their agencies, an appropriate framework of standards and targets which would encourage excellence and continuous improvement and address poor performance, with support from the Cabinet Office or Treasury where new flexibilities may be useful to agency management.**
9. **Agency business planning must be integrated with departmental business planning. Following the 2002 Spending Review, departments should ensure that agencies have three-year funding agreements to support three-year business plans.**
10. **End year flexibility (EYF) should normally be made available by all departments in line with Treasury guidance. Departments should discuss with their agencies and report on their proposed management of EYF to the Treasury before the end of 2002.**
11. **Departments should explore with agencies, as part of the end-to-end reviews proposed in Recommendation 7, the opportunities offered by trading fund status and enable agencies to use income generation to support capital investment in future services. Departments should also consider with their agencies how to get the best out of their assets, which may mean acting more commercially or expanding into wider markets where appropriate.**
12. **Effective management of staff has been at the heart of the improvements in performance achieved by agencies, providing for an outward and downward focusing of resources. Agencies should be able to recruit, structure, promote and manage staff effectively in the light of local needs and labour markets, including staff in the Senior Civil Service, within the requirements set out in the Civil Service Management Code, and to enforce service-level agreements when these and other support functions are provided by departments.**

Overview

Introduction

1. This review is about the delivery of services directly by central government. It assesses the model of executive agencies and concludes that it has been a success, bringing professionalism and customer focus to the management of government services.
2. The review coincides with a high political profile for wider work on achieving effectiveness in public services. The Prime Minister's speeches on public services have outlined four principles of reform:
 - high national standards and clear accountability;
 - devolution and delegation to the local level to encourage diversity and creativity;
 - flexibility and incentives to encourage excellent performance at the frontline; and
 - expanding choice for the customer.
3. Similar principles underlay the reforms introduced following the report by Sir Robin Ibbs in 1988 that proposed the new executive agencies (outline history at Annex B). These brought about revolutionary changes in culture, processes and accountabilities. The new Principles of Public Service Reform set a culture of delivery at the heart of government's purpose. They introduce a new emphasis on customer-led service design and on the

need for a framework within which to introduce incentives and reward for effective frontline operations, as well as intervention if performance is poor. They require a new revolution, within departments, to maximise the effectiveness of the model for the 21st century.

4. The review has focused primarily on agencies that report to Whitehall departments but has benefited from the co-operation and involvement of staff working for the Scottish Executive, Welsh Assembly and Northern Ireland Executive and their executive bodies. The review team welcomes their undertaking to look carefully at the review's recommendations and how they might apply to those bodies. Decisions on such matters are, of course, for Ministers in the devolved administrations.

Background

5. The agency model is very flexible. The 127 UK agencies (as at the end of March 2002), of which 92 report to Whitehall departments, are a heterogeneous group of activities managed within central government.
6. In size and scale the Whitehall-reporting agencies stretch from Jobcentre Plus (which was established at the beginning of April 2002 and has around 90,000 staff) and the Prison Service (42,000 staff) to the Wilton Park Conference Centre (50 staff) and the Debt

Management Office (40 staff). In relation to the primary functions the 127 agencies carry out: 49 deliver services to external customers; 45 (nearly all Ministry of Defence agencies) to government departments; 12 offer mainly research services; and 21 are regulators.

7. Some have policy responsibility in their area (e.g. Pesticides Safety Directorate); others have operational/process policy (e.g. the Prison Service); others are operational only, or cover only part of an operation (e.g. the Army Base Repair Organisation). Some cover critical areas of Ministers' objectives (e.g. the Employment Service, now replaced by Jobcentre Plus), while others bear no relationship to any of the identifiable policies of a department (e.g. the QEII Conference Centre). Eight are also departments in their own right, accountable ultimately to a Minister in another department (e.g. HM Land Registry and the Central Office of Information).

8. The Ibbs report suggests that 95 per cent of civil servants were in executive functions in 1988. Since then, the civil service has reduced staff numbers from 570,000 to fewer than 480,000 – a fall of 16 per cent – whilst the functions it delivers and the service standards achieved have increased. Agency staff now account for 277,000 (57 per cent) of Home Civil Servants and staff in Customs and Excise, Inland Revenue and the Immigration and Nationality Directorate of the Home Office another 95,000 (totalling 373,000 or around 78 per cent).

9. Whilst agencies vary hugely in size, function and significance to key departmental objectives, they are only one model of executive organisation within central government. Others are departments (e.g. Inland Revenue and Customs and Excise), directorates within departments (e.g. The Home Office's Immigration and Nationality Directorate), non-departmental public bodies (NDPBs) (e.g. the Environment Agency) and public

corporations (e.g. British Nuclear Fuels Limited). Increasingly, agencies and other public bodies are delivering public services through partnership or contractual relationships with private or voluntary organisations.

Conclusions

10. **The agency model has been a success.** Since 1988 agencies have transformed the landscape of government and the responsiveness and effectiveness of services delivered by government.

11. The management principles that created agencies continue to be highly relevant. An agency should be a well-defined business unit with a clear focus on delivering specified outputs within a framework of accountability to Ministers. The responsibility for performance rests clearly with the chief executive and agency staff. The focus of the organisation is downward and outward rather than upward and inward, as was the case before 1988.

12. Since the model is very flexible and covers a wide variety of activities, one size – of virtually anything – does not fit all agencies. Meaningful generalisations are therefore difficult. Except in one respect. All agencies need a clear framework of governance and accountability. As the Public Services Productivity Panel emphasised, 'effective accountability relationships are extremely important to delivering high performing organisations'.

13. **Some agencies have, however, become disconnected from their departments. The relationship between agencies and their departments is therefore at the heart of the review.** Despite clear intentions to the contrary and good examples of working together, the gulf between policy and delivery is considered by most to have widened. The trust needed to delegate effectively requires mutual understanding as well as clear frameworks and a 'no surprises' rule.

Without these, agencies cannot deliver Ministers' objectives or excellent services to customers within and outside Whitehall.

14. Many agencies feel disconnected from the main objectives of their parent department and other areas of government for whom they deliver services. The language used illustrates this – many use 'department' to exclude 'agencies' and indeed, the review has found no better words to distinguish core policy and sponsorship functions from delivery agents. But the two should be part of an integrated group of functions, the whole adding up to more than the sum of the parts. Most agencies would strongly welcome an appropriate level of involvement in strategic issues. This need not – indeed must not – lead to blurred accountability, micro-management or double-guessing. Effectively resourced, it should facilitate:

- a shared understanding of overall and relevant cross-cutting objectives;
- the effective management of risk;
- the identification of burdens or restrictions on agency freedoms which constrain effective performance at the frontline; and
- the development of incentives and rewards to continuous improvement across the department's activities.

15. The essential – and in too many cases missing – ingredient is a strong link to a process of intelligent business planning creating challenging and customer-focused objectives, led from the top of departments and involving at its core the skills and experience of those responsible for delivery, and providing the frontline with the tools, authorities, incentives and encouragement to deliver excellent services.

16. Agencies have in the past been treated as a self-contained project somehow separate from the business of policy-making. Many are, however, integral to successful delivery of the government's objectives. They must play a central role

in all aspects of the work to achieve those objectives.

Effective strategic direction

17. The review's recommendations address this disconnection.

18. First, a **one-off, high-level review of all delivery agents** should take place in each department to consider whether the current structures, which have grown up over time in an ad hoc way, are capable of delivering their objectives and Public Service Agreement targets in the most efficient and effective way. This could be piloted as a part of the Departmental Change Programme being developed by the Office of Public Services Reform (OPSR) in the Cabinet Office.

19. Second, ways should be found to bridge artificial and inhibiting distinctions between policy and service delivery in order to create **integrated, unified approaches to delivering outcomes for customers**. The review proposes that departments should replace organisation-specific quinquennial reviews with end-to-end reviews of the business processes needed to achieve specific outcomes: strategic policy, legislation, operational processes and delivery. A methodology for such reviews could be developed as part of the Departmental Change Programme.

20. Third, the leadership of departments must be capable of **driving the strategic direction and strategic management of all the department's activities**. This means that the 'top team' must harness the most skilled of those responsible for delivery on an equal basis with those responsible for policy development, both contributing to strategic direction and to an analysis of the strategic effectiveness of performance. Since many of the 127 agencies are not critical to the key objectives of their parent department, only a very few chief executives currently or in future would sit on departmental management boards. But all

would benefit from knowing that direct knowledge and experience of delivery was influencing the department's agenda.

21. Fourth, if agencies are to play a full role in delivering Ministers' priorities, a **clear line of sight is needed to Public Service Agreements** and, where relevant, Delivery Unit targets. Unless the link is clear to each delivery agent within the department, including agencies, there will be conflicting priorities and a continuing multiplicity of objectives. **Cross-cutting objectives** must also be specified within business plans and targets, so that the balance is clear between those wider aims and the essential focus on delivery of agency-specific targets.

22. This would be easier if departmental and agency **target-setting processes were aligned** and, where appropriate, timetabled to fit with Public Service Agreement and spending decisions. Some departments have achieved more in terms of alignment than others but those stakeholders that are significantly involved in delivering targets are not always involved in Public Service Agreement-setting negotiations. Their involvement from the beginning would result in a more effective collective framework agreed between all parties, including the Treasury.

23. Finally, some agencies are developing work together on **cross-cutting issues** directed at their joint customers' needs but driven by their individual business objectives. **Forums are needed** to enable those with operational skills to contribute to cross-cutting objectives at both a departmental and cross-departmental level in order to consider the priority of wider outcomes which may cut across their own targets. Electronic delivery of services and sharing of data is a key area.

Effective agency governance

24. There is currently a confused mixture of arrangements for creating a strong and

clear link between the department's strategic direction of the agency and the chief executive's responsibility for the delivery of excellent performance on the ground. Most agencies and departments consider the situation to be unsatisfactory, with little clarity of roles for departmental 'Fraser Figures', Ministerial Advisory Boards or non-executive directors. The review team believes that what is needed is a **simplification of governance models** to oversee strategic direction and strategic performance monitoring and review, relating to the extent to which an agency's performance is critical to departmental objectives.

25. All agencies require a 'sponsor' within their parent department who can facilitate Ministers' consideration of strategic business issues, can set the agency's agenda in the broader context and is capable of adding value to strategic performance monitoring. Many NDPBs are currently sponsored at – and subject to controls from – junior levels in departments even where their effective performance is critical to a department's objectives. They too would benefit from an authoritative senior sponsor. Although some non-executives play a valuable role in relation to strategic business issues, external experience and challenge is most likely to add value if non-executive directors are involved in agency management boards rather than through the various forms of Ministerial Advisory Boards.

26. Agencies that are not sufficiently relevant to departmental or cross-cutting governmental aims to justify the attention of a senior sponsor face a vacuum of governance. This leaves the chief executive both vulnerable and over-powerful but under-funded. In other cases, senior departmental resources may be distracted and tempted to interfere without adding value. In the private sector McKinsey called these '**orphan activities**'. They need a 'parent' within another model of governance, probably outside the department itself.

Innovative and responsive performance

27. Agencies, like most groups of organisations, show a broad distribution of success in achieving their targets. **Strategic performance monitoring** both within and across agencies should primarily be the responsibility of individual departments, not the central departments. It requires a framework for defining accountability; for performance criteria; for appropriate strategic management information; for performance assessment and for response. Skills and flexibilities are needed to respond appropriately to good or poor performance, adding value by any intervention rather than interfering. This is as true of the relationship between the centre of large agencies and local units as it is of that between department and agency.

28. There is a strong view from both agencies and departments that **targets are too many, are unprioritised and have little link to business objectives or customers' needs; and that authority, rewards, incentives, penalties or opprobrium bear no relation to performance.**

29. In reviewing targets, the onus should be on chief executives as well as departments to demonstrate that they provide a relevant picture of an agency's business objectives and are challenging and customer-responsive. The front line should have as few key targets as possible – wherever possible reflecting measurable performance against the achievement of relevant service standards and linked to incentives to continuous improvement. There is a long way to go to achieve this. However, agencies have much to offer departments in this area. Many other parts of departments are now having to use the disciplines and techniques – for example, project management – that agencies adopted long ago.

30. In order to identify and reward best practice, to provide the incentives to drive up standards more widely and to deal with poor or stagnant performance, results should be measured, reported and assessed against agreed targets and some response is needed. As well as resources and skills, agencies and departments need a framework of flexibilities to encourage and reward good performance and to take action to deal with poor performance. Very few agencies are yet using such mechanisms to address performance variations across their local units and to encourage continuous improvement.

31. There is currently no central information or comparative data collected on agencies' performance or on whether freedoms are effectively delegated and this is very difficult to collate. Without such information about comparabilities across agencies and departments, it will continue to be very hard to identify where agencies are more or less successful than others performing similar tasks or processes.

32. Good practice does exist, as this report's case studies show. However, there is no doubt that all agencies feel distracted from their core tasks by repeated requests for data with unreasonable deadlines. Data should be collected once, efficiently and for agreed ends, with defined purposes in mind.

Freedom to deliver excellent services

33. Many powers have been devolved to departments in recent years, recognising the importance of appropriate authority and flexibilities to those taking responsibility for delivering effective outcomes. But not all have passed these on to their agencies. Nor are there clear frameworks for relating rewards or penalties to performance. The departmental board's business plan for the whole department and its activities should be the background to the delegated

authorities and powers as well as the targets of each delivery agent.

34. The current position on delegated freedoms and controls shows confusing and sometimes perverse results. There is a strong tendency for the headquarters of departments to continue to enforce controls over inputs in place of systems to ensure that outputs are delivering desired outcomes. This reduction in management freedoms is damaging in terms of ability to deliver and distracting resources at both ends. It may lead to diseconomies of scale if local managers exercise the little real autonomy they have in relation to support services rather than focusing on innovative and responsive services for their customers.

35. Agencies, like departments, benefit from the stability provided by three-year plans and end year flexibility. The availability of the latter too frequently bears no relationship to the forward plans or performance of the agency. Both are essential tools to support excellent performance.

36. Effective delivery needs to be both flexible and responsive. Agency management must be able to recruit and reward all staff, including senior civil

servants, according to local needs and to plan and manage within broad financial parameters in order to deliver effectively. However, departments are concerned about broader corporate issues. There will be circumstances, for example at times of major restructuring, when central controls and systems are necessary. And there are costs in duplicating some services. Nevertheless, these concerns must be set against the costs and risks that result when services cannot be delivered and these risks managed.

37. The business planning cycle should be the basis for departments to review the use of delegated freedoms; the availability of incentives to high performance; and the processes and tools for supporting those struggling to improve and dealing with poor performance. Authority and powers should be clearly related to business requirements.

38. The principles enshrined in these recommendations apply equally to all departmental activities, from the delivery of effective policy frameworks to the responsiveness of support functions, as well as to the delivery of services from non-agency business units within central government and to relations with NDPBs.



The Army Training and Recruitment Agency recruits and trains all army officers and soldiers. Recruiting from 123 sites in towns and cities throughout the country and providing training through 40 centres, the agency has an average of around 12,000 officers and soldiers in training at any one time.

Models of delivery

1. Most services financed through central government are not delivered by the core civil service but by public servants in education, health, local government, criminal justice and other areas outside Whitehall. Nevertheless, central government is still responsible for delivering a wide range of services, including areas such as social security benefits, passports and driving licences. A wide variety of organisational models deliver the various outcomes required by Ministers:

- directorates within departments;
- departments running on agency lines;
- executive agencies;
- public/private partnerships;
- offices 'independent' of their parent departments (such as the Office of Government Commerce and the Office of the e-Envoy);
- executive non-departmental public bodies (NDPBs);
- government-owned companies; and
- contracted-out services.

2. Since the 2001 General Election, the Prime Minister's speeches on public services have outlined the principles of reform that go alongside the investment in public services to which the Government is committed. These principles stem from the overriding commitment to customers and need to be applied together in each service in order for excellent public services to be delivered. They are:

- high national standards and clear accountability;

- devolution and delegation to the local level to encourage diversity and creativity;

- flexibility and incentives to encourage excellent performance at the frontline; and

- expanding choice for the customer.

3. These four principles will have implications for the delivery of government services, particularly with the need to be more customer-driven. Departments must be organised to achieve outcomes for the public in the most efficient and effective way.

4. Before setting up a service, or in reviewing current services, departments need to address a number of fundamental questions:

- Are the proposed tasks essential to the policy objectives of the government and the department?
- Does the benefit from them justify the cost of carrying them out?
- What would be the costs and other effects of not providing the service?
- What are the public interest reasons for the functions to be carried out in the public sector?

5. Evidence from quinquennial reviews, the regular reviews that are required of all executive agencies and NDPBs, suggests that departments have not always been robust in their dismissal of arguments as to

whether functions should be abolished or delivered outside government. Clearly many functions are properly carried out within government because of the public interest, but there are a number of activities that may now be suitable for the private sector to take on or for partnerships with the private or voluntary sectors.

6. Once it is agreed that the public sector ought to be involved in providing the service, the factor most likely to influence the final choice of model is the need for ministerial involvement or the value of independence (or perceived independence) from Ministers. Where independence from ministerial involvement is desirable, an NDPB, with its statutory statement of aims and independent board, will probably be the best option.

7. Where the functions or services involved are especially politically sensitive, Ministers will wish to be kept aware of daily operational decisions. In many cases this will tip the balance towards providing the service directly through a department. The options are:

- a departmental directorate;
- one of the new models developed since 1997 such as the Office of Government Commerce, or the Office of the e-Envoy; or
- an agency.

8. In the majority of situations, executive services within departments are not highly politically sensitive and it is neither realistic nor appropriate for Ministers to take personal responsibility for the day-to-day running of the function. In this case an agency will be the best solution. The agency model is sufficiently flexible and accountable to make it the best choice for delivering most central government services. Currently most executive functions within government departments are carried out by agencies.

9. However, there are still a number of executive functions delivered internally within departments. The Immigration and Nationality Directorate (IND) is one example of a large executive function that is not an agency. Agency status was thought inappropriate for a number of reasons, including a link between policy and operations, political sensitivity and the problems the service encountered in the late 1990s. However, some agencies do now carry policy responsibilities. The review suggests that the Home Office should consider whether IND would benefit from the disciplines and focus of agency status.

10. Since 1997, the Government has created alternative models such as the Office of Government Commerce and the Office of the e-Envoy. These organisations are carrying out functions that are completely new and, alongside providing services to government departments, they are also involved in developing and enforcing government policy throughout Whitehall. Run by senior civil servants reporting directly to Ministers or Permanent Secretaries, this appears to be an appropriate mechanism for an enabling rather than a delivery function within government.

11. There has not always been a clear rationale why some services are delivered by agencies whilst others are delivered by NDPBs with independent boards. Since agencies were created, there have been further developments in delivering government services, such as public private partnerships and contracting out.

12. A one-off review of agencies and other delivery vehicles, carried out as part of the Departmental Change Programme, would ensure that appropriate structures are in place. These reviews should cover a department's entire 'landscape' of delivery bodies but take account of other relevant work, such as recently completed studies of the organisations or functions concerned, in order to avoid duplication.

Recommendation 1

The agency model has changed the landscape of government. Extremely flexible, it provides the most responsive and accountable framework for delivering executive functions from within central government. **As a one-off, high-level review, departmental delivery mechanisms should be evaluated as part of the Departmental Change Programme to ensure that they are appropriate to the tasks required today and that effective governance structures are in place.**

The agency model

13. Agencies vary hugely in size, nature of customer and financial regime (see Annex A). In addition, some are departments in their own right. Therefore, 'one size fits all' solutions will not work. Nevertheless, common features include:

- a clearly defined business boundary;
- a focus downward and outward on delivery within an agreed framework of accountability;
- financial and personnel flexibilities to get the job done;
- a chief executive with personal responsibility and accountability for operational decisions; and
- a published annual report and accounts, including a review of performance against targets.

Have agencies been a success?

14. The 1988 Ibbs Report suggested that there was insufficient focus on the delivery of services (as opposed to policy and ministerial support), even though at that time 95 per cent of civil servants worked in service delivery or executive functions. There was a shortage of management skills and of experience of working in service delivery functions among senior civil servants. Short-term political priorities tended to squeeze out long-term planning.

There was also too much emphasis on inputs and spending money, and not enough on getting results. While the introduction of financial management and management information systems had been a start, real changes in attitudes and institutions were needed to get the full benefits of better management.

15. The creation of 'Next Steps' executive agencies brought about dramatic improvement in all of these areas. Undoubtedly there is still much to do but, over a whole host of government services, there have been genuine improvements in customer service, and an increased focus on results and business planning.

Examples of service improvements since agency status

Companies House has reduced the number of days taken to process documents from 25 to four. Their unit costs have fallen by 18 per cent over the three years to 2001.

HM Land Registry has reduced its fees by 40 per cent and achieved a 40 per cent improvement in efficiency since it became an agency in 1990.

Prior to 1991, when the UK Passport and Records Agency was established, it took on average 95 days to process a passport. The average figure now is ten days.

16. In the review team's view, these improvements have indeed come about because of the characteristics of the agency model, including:

- clarity and focus on specified tasks;
- a culture of delivery;
- empowerment of frontline staff;
- greater accountability and openness;
- tailor-made structures and systems;
- innovative thinking and action;
- structure and branding of services;

- greater focus on risk management; and
- problems exposed, not hidden.

17. Measuring success is not straightforward in the public sector. Services are usually monopolistic and demand for some can fluctuate depending on general economic conditions. Measures of success that have been used include reducing expenditure, unit costs and turnaround times. Additionally, many agencies have widened the choice available to customers, such as providing enhanced services for a small additional cost.

18. Until 2000 the current Government and the previous administration published an annual White Paper listing the targets of every agency. This factual information was accompanied by an analysis of the targets. By the financial year 1998/99 it showed that over 75 per cent of targets were being met or exceeded and that agencies were increasingly focusing on ensuring that they had the right targets in place. However, it also highlighted a number of areas of concern which included:

- too many targets set below the level of current performance;
- too many targets reflecting internal processes rather than outputs and outcomes; and
- too few measures of real efficiency.

19. Other complaints that have been highlighted include:

- agencies not always working in tandem with other organisations where it would improve overall services;
- a 'silo mentality';
- too much focus on inputs and processes and not enough interest in outcomes;
- ministerial and parliamentary disquiet about the accountability regime; and
- the use of agency status as a route to privatisation.

20. None of the above issues are insurmountable and the flexibility of the agency model demonstrates that they can be overcome. A number of agencies are working across boundaries to offer customers a seamless service in areas such as parts of the criminal justice system or in relation to buying a house. An agency's key targets are published annually, as are its annual report and accounts. Because of its transparent structure, problems in an agency are more exposed than in parts of a conventional department.

21. Far from being a route to the private sector, no agency has been privatised since 1997 and the total number of privatisations is very small in proportion to the total number of agencies. However, like other organisations, agencies are identifying functions for outsourcing or contractual relationships with the private sector.

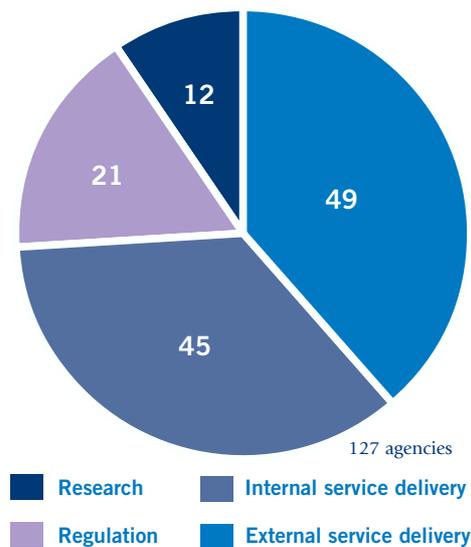
Adapting to changing demands

National Savings, which is in a competitive market, decided that if it was to be able to compete and grow the business, then it had to outsource its core functions to bring in much needed capital investment. The Agency now employs directly just over 100 staff, who manage the contract and give the business strategic direction, whilst around 2,000 staff previously employed directly are now employed by Siemens Business Systems.

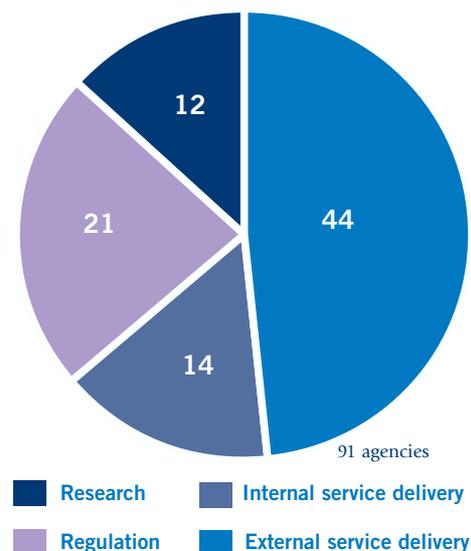
22. Whilst some improvements that agencies have made could have happened anyway, particularly as a result of technological developments, the evidence from those executive functions left within departments suggests that agencies are ahead in terms of developing technology and of focusing on users and the need to deliver efficient and effective services.

Types of agencies

Primary function of agencies



Primary function of non-MoD agencies



23. Agencies are a diverse group of organisations (see Annex C). Some are central to key departmental objectives, whilst others are very marginal to such outcomes. Some are responsible for delivering one specific service, others have a mixture of policy and delivery responsibilities, whilst others provide part of a supply chain in the delivery of other services. With this in mind, is there any evidence to suggest that a particular agency model has performed better than others?

24. Like many other aspects of agency performance, there is a scarcity of data. However, through the evidence gathered from interviews and looking at the various changes made to a number of agencies over the last ten years, it is possible to draw some general conclusions as to which variants of the agency model have been more successful in delivering consistently better services.

25. It was probably no accident that the first tranche of agencies to be created were responsible for delivering straightforward services such as MOTs, driving licences and the registration of land ownership. These were about focusing on a specific job to be done within a clear boundary. However, as the number of agencies and variants in the model grew, this clarity of purpose became less apparent.

26. Agencies like Companies House or the Patent Office, which are discrete businesses, have a large degree of autonomy as trading funds and because they are removed from the main day-to-day business of the Department of Trade and Industry. At the other end of the spectrum was the Benefits Agency, which was central to the agenda of its parent department and which delivered a very wide range of products to almost the entire population.

27. In the case of the Benefits Agency (which, with around 70,000 staff was larger than any government department except for the Ministry of Defence (MoD)), the business was too diverse to bring a clear focus on what was required to deliver a consistently high-class customer service. With hindsight it might have been better if a number of separate agencies had been created to focus on, say, pensions or child benefit. This is the solution that the new Department for Work and Pensions is now adopting, although only four of their seven business units will have executive agency status.

28. The MoD created a large number of agencies. Many deliver support functions to the Armed Forces and are usually structured on service lines. The structure and delegations of the majority of MoD's agencies differ from those of other agencies because they are part of the military chain of command. Whilst many of the agencies brought a welcome business focus to these functions, the boundaries were largely based on existing organisational structures, which in some cases resulted in artificial interfaces within a single business process. MoD has since rationalised a number of logistics agencies to bring together the delivery of similar functions, and is carrying out a number of end-to-end business process reviews which will look afresh at some agency boundaries.

29. A number of departments with mainly executive functions, including Inland Revenue and HM Customs & Excise, did not become agencies but were designated as 'running on agency lines'. This was a compromise because the statutory frameworks of these departments were

unsuitable to the classic agency model, although the executive areas of the departments had many of the attributes of agencies. Both these departments are in the process of reorganisation to focus functional commands on the needs of specific user groups.

Conclusion

30. Agencies have delivered improved and more transparent services and created a performance culture that did not previously exist in the civil service. In some cases, focus and purpose have been brought to parts of the government service previously invisible to Ministers. Agencies must continue to show that they can adapt to changing markets and customer demands and to contribute to wider corporate and customer objectives which go beyond organisational boundaries. The model is flexible enough to support this so long as strategic directions and strategic performance management are clear.



The **Forensic Science Service** is an internationally recognised centre of excellence for forensic casework and research. Its caseload has nearly trebled in the last ten years and in 2001–02 it supported 135,000 investigations, helping to sustain and improve the criminal justice system for the benefit of all its users and the public as a whole.

Achieving strategic direction

'The policy role is what Ministers value. The agency shouldn't have the lead on policy – policy and delivery functions are different – but should have a hand in it. The trick is to make the policy makers and deliverers work effectively together.'

Agency chief executive, autumn 2001

'I would resign rather than become part of a department – the culture would stop me from doing my job.'

Agency chief executive, autumn 2001

'Second-guessing agency management on operational/organisational management issues will not be productive.'

Agency chief executive, autumn 2001

'You cannot address the issues affecting agencies without addressing the lack of management and skills in the departments.'

Ex-senior civil servant, autumn 2001

Introduction

1. The previous chapter discusses the various models for delivering services and concludes that agencies will continue to play a vital role. But the choice of model will ultimately depend on which will be most effective in delivering the particular high-level outcomes desired, whether expressed in Public Service Agreements or in wider departmental objectives. The outcome sought must determine the structures put in place to support its delivery.

2. This means that departments and their agencies will need to break down barriers,

formal or cultural, between making policy and delivering services. The different skills involved in each are vital for the design and delivery of successful strategies, and those involved in such work need to improve the communication and mutual understanding of their different perspectives.

3. The principles of public service reform apply to departments and agencies equally. Both should:

- operate within a framework of standards and full accountability;
- devolve decisions and power to the local level wherever possible to encourage diversity and creativity;
- be flexible in their approach to how they encourage innovation and excellence at the front line of service delivery; and
- promote greater choice and responsiveness to the public.

4. This chapter discusses:

- the departmental governance and leadership required to define and support delivery of outcomes; and
- simplifying agency governance.

Effective departmental leadership

5. The reforms that created agencies involved the deliberate separation of policy and delivery functions so that each would be better able to focus on the task at hand.

In order now to achieve defined outcomes, departments must reorganise themselves to focus on the delivery of joint and integrated programmes of work. The skills and experience of those involved in implementation must be brought alongside those developing policy and legislative frameworks to support effective delivery. Yet skills in implementation are not always equally valued and effective dialogue is not always present. Delivery experience can make an important contribution to the development and implementation of departments' strategic plans.

Departmental boards

6. As a result of the new emphasis on achieving outcomes and in order to lead the strategic direction and strategic management of all the department's activities, the 'top team' needs to harness the entrepreneurial and management expertise of those responsible for delivery. Those on departmental boards, whatever their skills and experience, need to bring a strategic and corporate attitude to their participation and not just represent the interests of their part of the organisation.

Involving delivery skills in strategic planning on departmental boards

The Departmental Board of the Department for Work and Pensions provides leadership and support for the Permanent Secretary on supervisory and strategic issues. Membership comprises both executives, including the chief executives of the Department's key businesses, and non-executives. Almost all executive members of the Board have substantial experience of managing delivery functions.

The Management Board of the Department for Environment, Food and Rural Affairs is built around the Department's main areas of business and three professional areas (science, veterinary advice and legal affairs). It also features a new post of Director General for Operations and Service Delivery, who is responsible for improving and joining up service delivery across the Department, including relationships with key non-departmental public bodies (NDPBs) and agencies. Its non-executive directors include the Chief Executive of the Countryside Agency (an executive NDPB).

7. Departments' corporate and leadership structures should bring together key departmental commands and agencies on an equal basis to plan and manage the achievement of outcomes sought to:

- set corporate objectives and standards;
- review success against delivering critical outcomes and manage risks;
- ensure that performance and project management systems and disciplines are in place; and
- encourage success and deal with poor performance at a strategic level.

Recommendation 2

Delivery experience is rarely found at the heart of departments. **Departments' leadership structures must be built around the skills and experience of delivery as well as policy in order to plan and manage all aspects of achieving outcomes for customers.**

Filling skills gaps

8. The review has found that, over time, some departments and agencies have become disconnected; agencies have pursued their own agendas and have grown apart in outlook and areas of interest. Leadership is needed on both sides to ensure that they cohere and work towards shared aims and objectives. Skills must be developed if communication is to be effective.

9. Agencies must ensure that they understand the environment in which Ministers operate and must take steps to work out and communicate to staff the agency's role in delivering Public Service Agreement outcomes as well as wider departmental objectives. Departmental management must be capable of strategic planning for outcomes sought and of bringing added value to strategic performance review.

10. Integrating policy and service delivery to achieve specified outcomes requires a change in the way policy-making and service delivery are approached. The Ibbs Report highlighted the different skills that were needed for policy and service delivery and made proposals to enhance the experience of both in senior civil servants. If anything, the gulf between the two has widened since 1988, with both areas requiring increasingly sophisticated and far from interchangeable abilities. The successful delivery of outcomes will require that both are understood and equally valued and that skills gaps are filled by those with more than a passing knowledge of these very different areas.

11. Much has already been done, for example as a result of the Civil Service Reform programme, to modernise the civil service for the new challenges it faces. Diversity has improved, as has the proportion of the Senior Civil Service with some experience of service delivery or of working outside their parent department. Nevertheless there are few examples of successful managers of agencies or NDPBs who have attained the highest ranks in Whitehall.

12. Many of those interviewed during the review suggest that cultural factors continue to prevent the full involvement in strategy and policy development of those responsible for service delivery. Service delivery is still seen as lower in status than policy work. These are perceptions that are shared by those in departments and agencies alike. A lack of a common understanding continues to mean that joined-up and user-focused delivery is not at the centre of Ministers' and departments' thinking and planning.

13. Consistent and reinforced messages and strong leadership will be needed to change this. Action to monitor and report improvements (for example, in the number of service deliverers in key senior posts and in interchange at all levels) is needed. But recognition of the value of the separate

skills and experience of those with a career in delivery is essential if they are to play a full part in future leadership teams and in strategy development.

14. Recruitment, promotion, succession policies and training and development programmes should be designed to require that staff are properly equipped for their future roles. Better arrangements for joint working would help to break down barriers, merge differing cultures and introduce project disciplines into the centre of departments. Examples of such arrangements are: co-locating staff involved in service delivery and policy-making; and project teams of staff with service delivery and policy backgrounds.

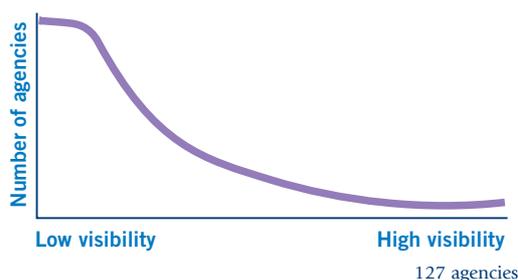
15. There is much criticism by agencies of departmental sponsors (whose role is discussed in more detail later in this chapter). These key people require a good understanding of implementation if they are to add value in managing the relationship between the department and the agency. No one should take on an agency sponsor role unless he or she has significant direct experience of delivering services or has support from people who do. Equally, agency chief executives require some understanding of the political pressures on Ministers and departments. If they are recruited from outside Whitehall, they may find it valuable to bring in staff with experience of working with Ministers.

16. The centres of departments need real skills in order to add value in managing strategic performance. Permanent Secretaries have a full role in day-to-day support of Ministers and leading their departments. Performance assurance, risk management and the development of cross-cutting initiatives and programmes all need to be resourced effectively and perhaps led by nominated members of the top team, including by key deliverers. There may be a case for a chief operating officer, with personal experience of the challenges of implementation, being responsible for supervising service delivery

across the department as a whole, or setting up a unit to act as a focal point for all a department's agencies.

17. Whilst any embarrassment within the government service can cause difficulties, the overwhelming majority of agencies normally operate in areas that are not highly visible to the public and are relatively free of media and political attention.

Agencies – public visibility



18. Yet concern has rightly been expressed at the impact of agencies when things go wrong. It has been suggested that in those cases where chief executives have met their targets and yet political embarrassment has been caused by a service failure, then there must be something wrong with the agency model. There is general agreement across Whitehall and agencies that this is to misunderstand the role of chief executives, Permanent Secretaries, Ministers and also of targets.

19. It is not the role of targets to define comprehensively the chief executive's responsibilities. They provide important clarity over objectives, clear prioritisation and a basis for measurement of performance and reporting. They do not

in any way reduce the chief executive's responsibility to ensure that he or she understands Ministerial objectives and that significant risks to them are discussed and managed actively, both with the Permanent Secretary or sponsor and, as necessary, with the Minister. Lessons have been learnt and applied in all the high-profile cases of the last decade.

20. The 'no surprises' rule requires chief executives to have sufficient awareness of the realities of government to spot potential problems and to be able to ensure that Ministers are sufficiently aware of emerging issues. Evidence suggests that the biggest single problem for many chief executives in the area of governance and accountability is the lack of ability to involve the Minister in the activities of the agency unless or until a crisis blows up. This underlines the importance of an effective departmental sponsor. (The role of sponsors is discussed in more detail in paragraph 26 *et seq.*)

Cross-cutting forums

'All our partnerships and joint initiatives are led by our business and owe nothing to any central "joining-up" initiatives.'

Trading fund chief executive, autumn 2001

'There is much more joining up on day-to-day matters than on strategic ones.'

NDPB chief executive, autumn 2001

21. New structures below departmental board level are being created to facilitate the better integration of policy and service delivery. These include bringing policy and service deliverers together at senior level in joint strategy boards with or without Ministers. Further down the management structure, project teams drawn from different areas of departments and agencies work together on designing and implementing policy.

22. Agencies already work together on joint services in response to business pressures. Effective delivery of outcomes

No surprises

'Departments should have arrangements for them to be alerted to significant problems affecting service delivery and quality in their agencies without becoming involved in day-to-day management.'

Source: PAC 24th Report 1999-00: *The Passport Delays of Summer 1999* (House of Commons, June 2000)

Co-ordinating the work of agencies – the Driver, Vehicle and Operator (DVO) Group

The DVO Executive Board was launched in 1999 to provide a strategic framework for, and improve the services of, the four agencies of the then Department for Transport, Local Government and the Regions that provide services to motorists – the Driving and Vehicle Licensing Agency, the Driving Standards Agency, the Vehicle Certification Agency and the Vehicle Inspectorate – and the department's Traffic Area Network. The Executive Board has a chairman at director level from the department and comprises the chief executives of the four agencies, the head of the Traffic Area Network and two non-executive directors. The Executive Board is guided by a DVO Advisory Board under the Director General of Planning, Roads and Local Transport. The Advisory Board's membership includes representatives of the Treasury and the Office of the e-Envoy as well as relevant policy-making directors.

The Executive Board is actively supported by the core department and a secretariat funded jointly by members. It has agreed a strategy for the next ten years and a programme of work to achieve e-enablement of all its services by 2005. Initiatives completed to date have produced significant improvements for customers, including IT projects to link websites and provide joint call handling, publishing joint publications and supporting a programme of staff exchanges across the group. An Internet-based service for booking and paying for driving theory tests was launched in January 2002.

Integrating policy and service delivery in the criminal justice system

The Prison Service is key to delivering the high-level objectives of the Home Office. Recognising strong Ministerial interest and the need for close integration with policy-makers and other parts of the criminal justice system, a Joint Strategy Board for Correctional Services, chaired by the Prisons Minister, was introduced to provide a forum for discussing the strategic direction of services. Membership comprised the directors of the Prison Service, the Probation Service, the Director of Criminal Policy Group and non-executive directors appointed by the Home Secretary.

The structure has been amended recently to provide a more effective response to the Government's commitment to improve provision for young adult offenders. The new structure will set the strategic direction for services, ensuring coherence between business planning within each service. The new board will be chaired by the Minister for Correctional Services, supported by the Permanent Secretary, with membership including the heads of policy and service arms and non-executive directors.

also means new arrangements for joint working between departments and agencies with overlapping interests, as well as action to counter the tendency of organisations to work without reference to wider objectives.

Recommendation 3

The different skills needed for excellence in policy advice and in service delivery are not yet valued equally. Mutual support is essential and both are integral to achieving outcomes effectively.

Departments and agencies must work together to bridge the gulf between policy development and implementation and to fill high-level skills gaps in departments and agencies.

Simpler agency governance

23. Ministers require confidence that agencies are playing their part in meeting strategic objectives in order to allow agencies sufficient freedom to carry out their functions in the most effective way for their customers and without undue interference. In order that trust develops and is sustained and innovation and creativity can flourish, there needs to be clear governance of the relationship between the department and the agency to provide:

- two-way dialogue and understanding, ensuring no surprises;
- shared strategic direction;
- meaningful, stretching but achievable targets;
- risk assessment and management; and
- effective strategic performance monitoring and review.

24. A framework document that is ten years old is not likely to achieve this. Without regular care and attention, maintenance and adjustment, any system of governance is at risk of becoming neglected and irrelevant. Governance arrangements should be reconsidered on a regular basis

to ensure that they continue to produce the trust and confidence needed by Ministers, the department and the agency. Chief executives and Ministers should be expected to review the frameworks at regular intervals, if only to endorse them as of continuing value.

25. Good governance should remove the temptation for Ministers or the departmental board to micro-manage. However, unless a Minister or senior official is properly engaged in agency issues, a vacuum of governance will occur. Ministers must engage formally with each agency at least annually to endorse targets and discuss risks and their management; many will need or wish to do so more frequently.

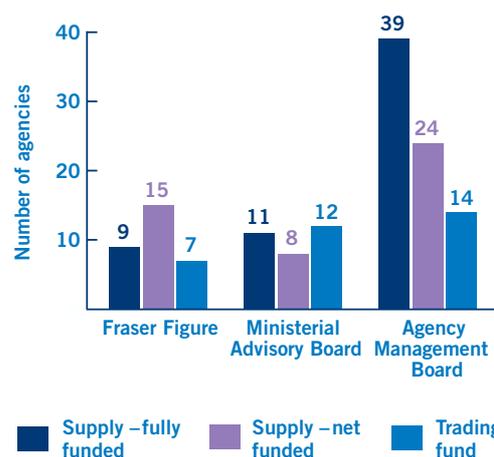
Departmental sponsors

26. There is currently a confused mixture of arrangements for creating a strong and clear link between a department's strategic direction of an agency and the chief executive's responsibility for the delivery of excellent performance. These include sponsoring officials, who tend to be either the head of the relevant policy directorate

or of a central agency monitoring unit (and who have become known as 'Fraser Figures' after the report into agency governance by Sir Angus Fraser that first suggested the role – see box). They sometimes chair Ministerial Advisory Boards, bringing together key agency executives with externally appointed independent directors.

27. There is much variation in the roles played by 'Fraser Figures' and some confusion about their position. Some departments have no 'Fraser Figure', while others have several. Whilst over a third of agencies now have them, a significant number of chief executives are unclear about the 'Fraser Figure' (or equivalent) function and its relationship with any Ministerial Advisory Board.

Governance regimes



Based on 85 questionnaire responses

'Fraser Figures'

'Departments have to establish arrangements for providing advice and support to Ministers in relation to their Agencies. It is very important that these arrangements match the personal responsibility and accountability explicit in a direct relationship between the Chief Executive and the Minister. There needs to be a focal point within the Department both for challenging the performance of the Chief Executive and for supporting and facilitating his work in meeting his objectives and key targets. Those carrying out this task must combine knowledge of the Minister's policies with successful management experience. They must be able to speak to the agency for the department as a whole and advise the Minister on all areas of interest relating to the agency. We see their function as being very different from that of the traditional Civil Service line manager. In the private sector we found that such a role was exercised through a single senior individual in the centre of the organisation who was able to develop a personal relationship with the Chief Executives of the operating units and had a stake in their success.'

Source: *Fraser Report* (paragraph 2.12), 1991

28. The review team believes that a clear departmental focal point at a senior level is needed for each agency (and, for that matter, every NDPB). The best term the review team has found to describe this role is 'sponsor', although a number of alternatives to it have also been considered. 'Mentor' (in the sense of 'senior and trusted adviser') comes close but might suggest that the mentor outranked or was in some other way senior to the chief executive, while the aim should be a partnership between the two. The sponsor should have the skills and experience to take on strategic performance monitoring, to facilitate Ministers' consideration of strategic business issues

Sponsors – role, skills and competences

The sponsor should not attempt to double-guess the chief executive on matters within their authority but should provide a wider perspective on the agency's work.

The sponsor will be a senior (i.e. not below Senior Civil Service level) official with responsibility for:

- developing and advising Ministers on the strategic direction of the agency in the context of wider departmental or cross-governmental objectives;
- agreeing a framework for strategic performance management;
- advising Ministers on their response to strategic performance information;
- advising the chief executive on steering the agency's activities to ensure that they most effectively support the delivery of departmental objectives; and
- ensuring the agency has the delegations and authorities necessary for effective delivery and continuous improvement.

The sponsor will need the skills and competences to add value through:

- understanding and experience of the needs of delivery and business opportunities;
- experience of dealing with Ministers;
- knowledge and understanding of cross-governmental objectives; and
- providing constructive challenge to the management of the agency.

and to set the agency's agenda in the broader context.

29. Some agencies (such as the Public Record Office and HM Land Registry) are departments in their own right, with their own aims and objectives. The sponsorship role here should focus more on supporting communication, liaison and integration than on the setting of strategic direction, for which the chief executive will remain directly accountable to Ministers. Whilst there should be no need to interpose a second opinion between the chief executive as senior adviser and the Minister, there may be a role for a Whitehall sponsor able

to bring together cross-departmental interests and to provide constructive challenge to strategic performance.

30. NDPBs also need sponsors at a suitably senior level. Because NDPBs have their own statutory framework for, and an independent board to oversee, their activities, the sponsorship role here will be less to do with the direction of the NDPB and will focus on communication, strategic performance management and the allocation of resources. All sponsors, regardless of the type of body with which they deal, will need a similar set of skills, experience and competences.

31. The sponsor might be the Permanent Secretary in the case of a very few major agencies but is more likely to be the director of the relevant policy area or the head of an agency sponsorship unit.

32. The review has heard conflicting views on whether chief executives should continue to report directly to Ministers on the management of day-to-day operations or whether they should in future report to the Permanent Secretary. All agree that Ministers must set strategic frameworks for, but cannot be personally responsible for, day-to-day operations. The Permanent Secretary is clearly responsible for the totality of a department's resources so as to deliver its specified outcomes, through the effective combination of policy and service delivery. The chief executive, unlike most departmental officials, is publicly and visibly accountable for a defined area of activity. The key question is whether changing reporting arrangements for operational matters would benefit or hamper the delivery of outcomes and improve or further challenge these key personal relationships.

33. The current arrangements for agreeing the strategic direction of agencies and the accountability of chief executives for operations are consistent with the principle of public service reform that, within

suitable frameworks, authority over and responsibility for decisions should, wherever possible, be delegated and made closer to the front line of service delivery.

34. All recognise that in practice Permanent Secretaries' rights in relation to all departmental activity could be invoked at any time. They also agree that any good chief executive should seek to involve the Permanent Secretary on important issues and before things go awry. Similarly, the Permanent Secretary should seek to ensure that the chief executive is consulted and involved in key corporate decisions. Most also agree that if reporting arrangements were to be changed, chief executives should retain a 'right of audience' with Ministers.

35. Those in favour of making chief executives accountable to the Permanent Secretary see this as reflecting his or her responsibility to ensure that the department is properly structured and organised to deliver the outcomes specified by Ministers and, to enable this, to ensure that the department delegates effectively and joins up where appropriate.

36. Those against a change point to the benefits that arise from focusing accountability for operational matters on the chief executive. Blurring or making more complex the lines of accountability, they argue, would increase risk aversion. Second-guessing of operational decisions would become more likely, reducing the agency's outward and customer focus, slowing decision-making and reducing business identity. The change would represent a backward step and confuse accountabilities, especially in relation to ministerial and Accounting Officer responsibilities, where the National Audit Office and the Public Accounts Committee have developed a clear understanding of the nature of the personal responsibility of the chief executive for operational decisions.

37. Departments are at different stages of adapting to the new focus on delivering outcomes. Some (for example, the

Department for Work and Pensions (DWP)) have already reorganised themselves to ensure that the senior managers of policy development and service delivery come together in a departmental board with strategic oversight over all the department's activities. Others have yet to act. The review team believes the priority for departments is to ensure that their top teams have the right mix of skills and experience to manage this work and that changing reporting lines between chief executives and Ministers might confuse this. It therefore sees no need to recommend changing the established arrangements that chief executives should report to Ministers.

38. Agencies that are not sufficiently relevant to departmental or cross-governmental aims to justify the attention of a senior sponsor face a vacuum of governance. This is likely to leave the chief executive both vulnerable and over-powerful but also under-funded. In other cases, senior departmental resources may be distracted without adding value. In the private sector, functions no longer related to the parent organisation have been termed 'orphan' activities. Other governance arrangements – including a change of status – may need to be considered for agencies in such circumstances.

39. Some such agencies might better be NDPBs, with effective direction and governance provided by an independent board. Some functions might be privatised or outsourced or, if the need for them no longer arises, simply stopped. It will be crucial to plan for a change of status well in advance. For example, markets for services may need to be found and developed to ensure the long-term survival of functions such as research facilities.

Steering and advisory boards

40. Supplementary arrangements for overseeing strategic direction and performance monitoring and review may

be established and are likely to relate to the extent to which an agency's performance is critical to departmental objectives. The variety of agencies means that one solution will not fit all and it should be for departments to decide on the precise structure of governance arrangements as long as the key principles of governance are met: shared strategic direction; meaningful, stretching but achievable targets; risk assessment and management; and effective, high-level performance monitoring and review. However, the current variety of boards with no clear role or authority confuses rather than supports strategic direction and accountabilities.

41. A few agencies that are politically sensitive, very highly visible to the public or otherwise core to a department's activities may require a formal forum, such as a Steering Board chaired by a Minister, to consider strategic issues, and perhaps particularly to focus on those which go beyond the agency's own boundaries.

42. However, the more usual Ministerial Advisory Boards, which are currently used by around one-third of agencies to bring in external, strategic advice to Ministers and chief executives, cannot give direction in place of the Minister. In this regard their role is quite different from that of the board of an NDPB. This review suggests that no agency needs both a Steering Board and a Ministerial Advisory Board and that in most cases non-executive directors play a more direct and valuable role on management boards and on departmental stakeholder boards.

Non-executive directors

'At the beginning we were all very unclear as to our role and responsibilities on the Ministerial Advisory Board – were we there because of our own personal competencies or because we represented an interest group?'

Non-executive director, autumn 2001

'Most of the Board did not understand civil service culture well enough to be effective in the early days –

crucially this included the chief executive. They couldn't advise the chief executive on how to deal with cultural issues and the chief executive had no Whitehall network.'

Non-executive director, autumn 2001

43. Non-executive directors or independent members are used on many Departmental Boards, Ministerial Advisory Boards and agency management boards to bring outside expertise or a different perspective.

44. Evidence from non-executive directors suggests they have difficulties in understanding the tensions that arise through having to meet business concerns whilst functioning in the public sector. This stems from an initial lack of clarity about their roles and responsibilities and what is expected from them, often combined with a lack of knowledge of Whitehall and Parliament. They also consider their potential strategic role is often squeezed out by lack of time in meetings, where too much emphasis is placed on detailed performance management and too little on strategic direction. While part of their role is to provide challenge and stretch to agency targets and performance, the potential of their wide and varied expertise is not always put to full use.

45. Non-executive directors should be supportive, advisory and enabling. They should provide advice in ways that will help the department and the chief executive. They have a key role in suggesting challenging and customer-focused targets for the agency and innovative approaches to their delivery. However, they have neither the powers of direction nor the liabilities of members of a private company or an NDPB board.

46. Many boards have been set up in the past without clarifying what each of their independent members can expect of their activities and what the independent members are expected to contribute. Independent directors should have a clearly defined role and responsibilities and clear

lines of accountability. A planned and personally tailored induction may be helpful in making the best use of their expertise, knowledge and skills.

Framework documents

47. Agencies' framework documents set out the responsibilities of the Minister, department and chief executive and arrangements for liaison, reporting and performance assessment. These valuable documents clarify accountabilities, responsibilities and activities and are recognised by Parliament as defining a relationship that is different from that of the usual department official. They have historically been stand-alone documents – statements of the contract between agencies and Ministers – and not set in the context of the department.

Departmental frameworks

The Department for Work and Pensions has produced a 'Departmental Framework' setting out the governance arrangements for the whole department. The departmental framework includes its separate businesses, not all of which are, or will be, formally established as agencies. The department will not produce separate agency framework documents for the department and its new agencies, but will ensure all issues applying to agencies are included in the main framework and existing agency frameworks can be subsumed within it. The objectives of individual agencies and business units are set out in annexes.

The Ministry of Defence is producing a 'contract' between its head office and each top-level business unit. This will be a simple framework, tailored for each unit, which will set out what is to be delivered, the resources allocated, respective accountabilities and arrangements for performance management and corporate governance. The outputs, objectives and targets will flow from the departmental and Public Service Agreement objectives and targets to provide a clear line of sight between departmental and business unit objectives and better define responsibility and accountability for delivery.

48. Alternatives to framework documents for each agency – frameworks that apply across a whole department – are being developed in two service-oriented departments, the DWP and the Ministry of Defence.

49. Framework documents defining degrees of involvement and accountability need care and maintenance if they are to remain relevant and of value. Many framework documents have not been updated to reflect changes in ministerial direction, customers' needs or control frameworks since they were first drafted. They focus on the role of the agency more than that of the department and do not take account of the cross-cutting issues that may be a priority today. Many lack details of how risks are to be assessed and managed and how conflicts are to be resolved. Most do not address the individual business needs of the agency.

50. Framework documents need to be reviewed and brought up to date, as does the guidance on developing them. It is important that they remain an accurate statement of responsibilities so that all those involved are clear about what they have to do. However, they should also be living documents, tailored to the business of each agency, rolled forward as plans develop and endorsed by the current ministerial, departmental and agency leadership.

Recommendation 4

The maintenance of simple, clear frameworks that add value and ensure active strategic engagement with each agency are essential to effective governance. **All agencies should have:**

- at least one discussion a year with their Minister;
- a senior sponsor within their parent department to provide strategic direction and strategic performance management;
- a two-way 'no surprises' rule;
- external challenge and support introduced via the agency's management board;
- clear roles for, and induction of, non-executive directors; and
- a framework document reviewed at least every three years or as business plans roll forward.

Performance management

'It is essential that all public sector organisations whether they are Non-Departmental Public Bodies, Executive Agencies, Government Departments, the NHS or local authorities are transparent, responsive and accountable. The public are entitled to know whether their money is being well spent and what is being achieved with it. Consistent, clear reports of performance and publication of results are important to record progress and exert pressure for improvement. Such transparency is essential to help ensure that public bodies are fully accountable.'
Executive NDPB 1998 Report, Cabinet Office, 1998

'Target setting is a game.'
Agency chief executive, autumn 2001

'We operate against targets rather than with them.'
Agency chief executive, autumn 2001

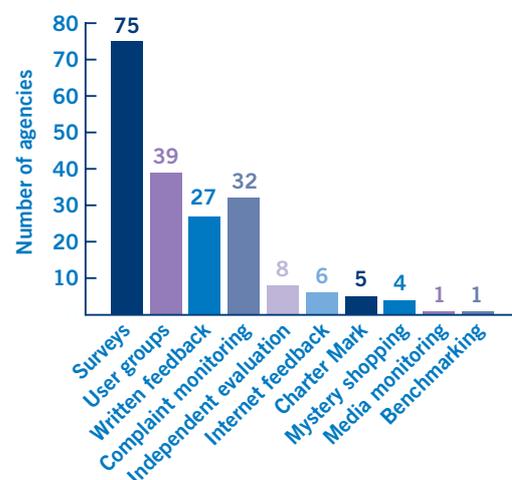
Aligning departmental and agency targets

1. Being able to manage, measure and improve performance is central to the agency concept. At the heart of agency and departmental performance management lie two significant processes – high-level Public Service Agreements for departments and key performance targets for agencies. Strategic performance management should reinforce the link between these two processes and also be the thread through which the concept of shared ownership and responsibility (primarily between departments and agencies) for the delivery of wider departmental outcomes can be developed and taken forward. In relation to

health, education, transport and crime these must be consistent, where relevant, with the contracts agreed with the Prime Minister's Delivery Unit.

2. The principles and values of good performance management seem well recognised and there are examples of effective performance management frameworks that set out clear links between departmental outcomes, the agents responsible for delivering those outcomes, customers and the citizen. In general, however, a much more fragmented picture exists – with a lack of trust in both directions and a culture of isolationism and general dissatisfaction. Links to customers are sometimes fragile and, where customer satisfaction is tested, there are not always the processes in place to feed customers' views back into the supplier chain – much less to act on them.

Measuring customer satisfaction



Based on 85 questionnaire responses

3. Overall, few chief executives felt that the targets that they agree with departments are key to driving their business forward and most key agency targets do not resonate with public users of the service. The link between Public Service Agreements and agency key targets is also often unclear and there is a tension between wider departmental directions and delivery – targets set at the top of the department are rarely relevant to people at the front line of delivering services.

4. Some agencies and departments have started to look closely at their key performance targets and Public Service Agreements. There is a general appreciation that work needs to be done in these areas – however, progress is slow. Many agency targets appear to have grown old and worn and there appears to be little enthusiasm or incentive, either within agencies or departments, to make changes. Equally, with Public Service Agreements still at a relatively immature stage of development, it is often difficult for agencies to see any real link between the services they deliver and the needs of the department.

Aligning Public Service Agreements and key targets

'Some departments and agencies have established very clear links between PSA targets and agency targets. For example, the Department for Work and Pensions had a PSA target to reduce losses from fraud and errors in Income Support and Jobseekers Allowance by at least 10 per cent by March 2002. The Benefits Agency had an agency target directly based on the Department's target.'

Source: *Good Practice in Performance Reporting in Executive Agencies and Non-Departmental Public Bodies* (NAO, March 2000)

5. Without a clear line of sight to departmental objectives, there can be no real sense of joint ownership of programmes delivering outcomes to customers. An alignment is needed between Public Service Agreements and agency targets which strengthens the theme of

end-to-end processes designed to achieve outcomes by ensuring that all key stakeholders understand the links and interdependencies.

6. Agency target-setting, Public Spending Agreements and spending decisions should be integral parts of one complete process, brought together in the Spending Reviews. This review has found that many chief executives of agencies involved in delivering the objectives set in the last Spending Review were not involved in their formulation. Departments and the Treasury must act now to ensure that service deliverers play their full role in shaping the outcomes sought in the current and subsequent Spending Reviews.

Recommendation 5

Departments and agencies must together ensure that agency targets are real, challenging and responsive to customers. **Departmental and agency target-setting must be aligned and timetabled to support Public Service Agreements and be supported by spending decisions. Key service deliverers should be fully involved in setting targets in Spending Reviews.**

Targets and business planning

7. Existing guidance on measuring performance and performance information is comprehensive and useful – a great deal of good work is currently available on the subject. However, whilst many of these documents provide excellent summaries of various elements of the business planning process, there is little evidence that they are in regular use in the relevant areas of departments and agencies. A more comprehensive and targeted distribution programme would help to get this information in front of the people who need it most.

8. Target-setting needs to be a much more 'intelligent' process – involving understanding and debate from all stakeholders. Consultation with agency

chief executives has shown that overall there is a perception that current targets do not measure or monitor the right things; they interfere with business objectives.

9. Many agencies also have too many key performance targets – often because the process of changing or removing them is seen as too difficult. The Public Services Productivity Panel report *Accountability and Responsibility* explains that organisations and staff can only focus on a limited

Good business planning

A number of recent reports and publications from the National Audit Office, Cabinet Office, HM Treasury, Audit Commission and Office for National Statistics offer good advice and best practice. These include: *Measuring the Performance of Public Departments* (NAO, March 2001); *Choosing the Right FABRIC – A Framework for Performance Information* (HMT/NAO/CO/AC/ONS, March 2001); *Good Practice in Performance Reporting in Executive Agencies and Non-Departmental Public Bodies* (NAO, March 2000); and *Aiming to Improve – The Principles of Performance Measurement* (Audit Commission, June 2000).

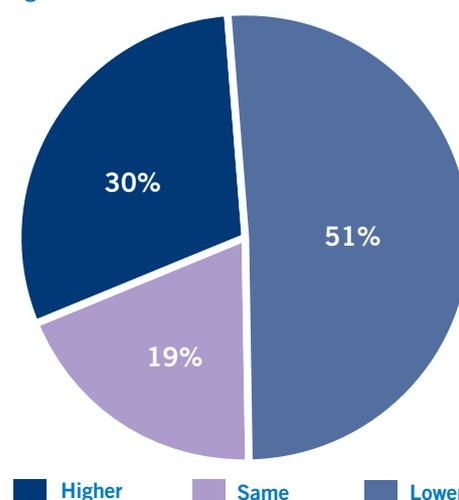
Of these, *Choosing the Right FABRIC* outlines a common government framework for performance information that is ‘Focused, Appropriate, Balanced, Robust, Integrated and Cost-effective’. Another recent joint publication from the Cabinet Office and HM Treasury, *Your Delivery Strategy – A Practical Look at Business Planning and Risk* (September 2001), pulls together the various strands of the business planning process – including target-setting, performance review, incentives, people and the planning cycle.

number of targets at one time – too many targets can be as bad as having no targets at all. Organisations should focus on a small number of targets, that are clearly prioritised so that everyone in the organisation knows what the overall direction of the organisation is and what targets are most important to achieve this.

10. Changing targets that are no longer relevant, that have been overtaken by higher priorities or have become out-of-date should not be a complicated or lengthy process. Targets must not be retained simply to provide continuity if they are no longer appropriate.

11. Achieving the right degree of stretch in setting achievable targets has to be balanced with the risks – political as well as personal – associated with non-delivery of aspirational objectives. However, 51 per cent of the agency targets set for 1999/2000 were lower than outturns already achieved for 1998/99 and another 19 per cent held steady; only 30 per cent aimed at improvement.

Comparable targets for 1999/2000 against outturns in 1998/99



Source: *Executive Agencies 1999 Report* (March 2000)

Performance targets should reflect reasonable public expectations

Although over 500 people missed their travel dates as a result of delays in the issuing of passports in the summer of 1999, and thousands more were subject to anxiety and inconvenience, the Passport Agency was still within the Home Office target of meeting 99.9 per cent of travel dates. The Public Accounts Committee considered the target was a poor reflection of the public's expectation of the service.

Source: *PAC 24th Report 1999-00: The Passport Delays of Summer 1999* (House of Commons, June 2000)

12. The setting of stretching targets requiring continuous improvement is essential to improved performance. Stretch should not be imposed – it should be developed with all those involved in the

Public Services Productivity Panel – accountability for results project

The key findings of the project are that clarifying and sharpening accountability for results throughout an organisation will significantly improve performance and delivery. Good accountability between principal and agent requires investing time and effort in making the relationship work in practice.

Although many organisations understand the theory behind improving accountability for results, it does not always translate into practice and implementation is often fudged. There is a need for:

- clarity in what outputs will be delivered and how these help ensure delivery of the desired outcomes;
- clear roles and responsibilities for all parties involved;
- rigour and structure in relationships between principal and agent; and clarity about who will resolve any issues and how.

The *Accountability for Results* report (HMT, March 2002) identifies a number of areas where a concerted effort to improve accountability arrangements would be valuable and recommends that principals and agents throughout the public sector use this checklist as a developmental and diagnostic tool.

Setting targets

Key corporate targets should focus on key outputs. The Meteorological Office's main corporate target did not focus on key outputs i.e. weather forecasts and did not provide a firm basis on which to assess the overall quality of their work because it included purely administrative matters.

Targets must be sufficiently challenging. Given the link between performance and pay bonuses and to foster a culture of continuous improvement, targets should not remain at the same level if they have been beaten in previous years.

Source: *PAC 7th Report 1995-96: The Meteorological Office Executive Agency* (House of Commons, February 1996)

business planning process. This should include departments, agencies, non-executive directors, sponsors and customers to provide a bridge between departments and agencies and encourage increasing challenge in priority areas.

Recommendation 6

Where relevant, the balance between agency-specific and cross-cutting targets needs to be clearly specified and initiatives, such as electronic service delivery, clearly prioritised. A few key targets should reflect measurable performance linked to departmental objectives and service standards.

Open reporting

13. Agency annual reports provide corporate information in an accurate, accountable and timely fashion and inform the public about the range of services on offer, the standard of service customers can expect to receive and how they can complain if they do not receive it. At present, annual reporting is generally seen as an expensive and resource-hungry exercise that is of little value except as confirmation of high-level audit. However, public expectations require good-quality and objective information about performance to be made available to the public in a way that is understandable and relevant. Greater use of websites to report on service standards would improve access and transparency and contribute towards improving external accountability.

14. Customers are more interested in knowing the standards of service they can expect than in organisational targets. Work is already under way to develop more comparable customer satisfaction information across government. This is a vital first step. More needs to be done to provide more comprehensive comparable information on agencies to inform a more meaningful discussion about best practice, rewarding good performance and identifying areas of concern.

An integrated approach to performance

The new National Probation Service for England and Wales (NPS) is facing a challenging period of reform, bringing unprecedented organisational and cultural change and an associated set of demanding service delivery targets. It is geographically widespread in 42 Probation Services that match police force area boundaries.

To meet these challenges, the NPS is beginning a process of change that often goes against the grain of past history and traditions and looks to deliver a new service to specified standards of performance.

A strategic framework, the 'New Choreography', has been developed. It uses the idea of 'stretch objectives' to highlight areas of the organisation where the greatest challenges lie. This integrated strategy is both an organisational change programme and a public declaration of the NPS's intent to meet its collective aims – a key element of which is that the NPS should: *'By 2006, be able to demonstrate the levels of organisational excellence that will earn it recognition as a top performing public service'*.

Two of the objectives that will contribute to meeting this aim – 'building an excellent organisation' and 'building an effective performance management framework' make use of the European Excellence Model as a self-assessment tool, sign-posting the way to the achievements required.

15. Established quality tools, such as the European Foundation for Quality Management (EFQM) Excellence Model, can play an important part as one element of a performance framework; and their wider application across agencies and departments would go some way towards providing more externally focused information about relative performance, as well as introducing a mechanism for rewarding successful delivery and identifying relatively poor performance.

16. Departments should be responsible for strategic performance management of all the service providers within their responsibility – contractors, business partners and departments themselves, as well as agencies. Links between performance against departmental Public Service Agreements and agency targets should be able to be audited. Internal measurement should be built into business planning and reinforced by external

validation and comparison, making use of independent board members, peer organisations or 'critical friends', as well as through quality tools.

17. The Cabinet Office currently has a central support role, looking across departments to provide data, information and best practice guidance. There are a number of good examples of the value of Cabinet Office participation – particularly involvement in sponsoring best practice

QUEST

The Quality, Efficiency and Standards Team – QUEST – of the Department for Culture, Media and Sport acts independently of the department to report on ways the cultural and sporting sectors can best achieve the Government's social and economic objectives and the means by which they can demonstrate their performance. In doing so, QUEST is tasked with identifying and promoting best practice and working collaboratively with NDPBs and others in the cultural sector to raise standards.

QUEST is not an audit body or an in-house consultancy. It acts as an external piece of machinery that looks at the department as well as NDPBs and provides reports and support across these areas. The model is unique and QUEST has its own funding, advisory board and chief executive.

QUEST has significant freedoms to operate – as well as being directed by the Secretary of State, it has a remit to look at any areas it feels would benefit from its help. It can bring in specialist expertise and it tries to work with the best people from a wide range of sources within the NDPBs and the department, from other parts of government and the private sector.

Quest has produced two major reports, recommending less bureaucracy and promoting innovation in the cultural and sporting sector. It has also carried out work on performance management and benchmarking.

guides and publications. However, there was a general view in departments and agencies that much of its activity created substantial bureaucracy and added little value.

18. In 2001 the Cabinet Office carried out an audit of the reporting requirements accompanying initiatives such as modernising government and e-business. Among its recommendations were that the

centre should do more to simplify reporting requirements and achieve a lighter touch. The review team strongly supports this and suggests that the Cabinet Office should follow up the audit with a detailed 'housekeeping' review of all reporting and other requirements placed on delivery agents by the centre, with the aim of reducing to a minimum the burden they create.

19. Whilst this review considered the need for an external perspective to ensure a 'joined-up' approach, for example through an 'agency inspectorate', the variety of agencies' activities does not lend itself easily to such an approach. It is essential that departments take responsibility for strategic performance review. This should continue to be supported both by the Cabinet Office, developing best practice that builds on information used by agencies and departments for business purposes, and by the Treasury's performance monitoring role in relation to Public Service Agreements.

An integrated approach to performance management

An integrated approach to performance management occurs at Wigan Metropolitan Borough Council, which is a large, all-purpose public service organisation that serves 310,000 people and has an annual spend of £600 million. It operates a mixed economy of internal and external services (£60 million) and links high-level outcomes and corporate planning to the actions of individuals by managing and evaluating performance through use of Best Value Reviews and the European Foundation for Quality Management's Excellence Model.

The 'Wigan performance project' was developed to support these initiatives and to improve performance management across all council services. The project aims to:

- map objectives and plans across the council;
- link activities with objectives to help understand what really drives performance;
- ensure that all services manage performance using a balanced set of measures;
- identify gaps in current systems and fill them by developing local performance measures;
- provide full audit trails for performance measures;
- load performance data directly into the corporate system;
- provide support and training across the council; and
- deploy corporate performance management software – 'Performance Plus'.

This integrated approach closely follows the national guidance on performance management outlined in *Choosing the Right Fabric – A Framework for Performance Information* (HMT/NAO/CO/AC/ONS, March 2001). Wigan Metropolitan Borough Council has developed a high-performance/low-cost regime and has made service improvement a priority.

Business review

20. Agencies and non-departmental public bodies (NDPBs) are currently subject to a periodic programme of business review and scrutiny known as quinquennial reviews (QQRs). The Cabinet Office reviewed its guidance for conducting the reviews and looked at the value of the quinquennial review process in July 2001. It found that the process added value, but that quinquennial reviews gave rise to uncertainty that tended to have a negative effect on staff morale and that the reviews themselves had limited interest for Ministers.

21. This was supported by evidence taken from chief executives and others during the course of the review: the process was perceived to be bureaucratic and inflexible, with a damaging impact on organisational morale and hugely distracting of management time and energy. Yet it is vital that agencies are subject to external review and challenge and there are obvious benefits in the principles of the quinquennial review

process. The weaknesses appear to lie in the practice and in the separation of delivery from other aspects of the overall picture.

22. This review concludes that quinquennial reviews are not effective as a way of ensuring external challenge and that departments and agencies or NDPBs rarely gain substantial benefit from them. An estimated £5 million per annum is spent on quinquennial reviews, yet there are few examples of the quinquennial review process itself producing significant business change. More often, although sometimes linked to quinquennial reviews, major change is the result of political initiatives or individual organisations' business re-engineering.

23. A new approach is needed, building on the importance of the principle of challenge and scrutiny and recognising that departments must consider the effectiveness of *all* the elements in achieving outcomes, not just their agencies and NDPBs.

24. This review has proposed that departments conduct a one-off review of their delivery structures as part of, or in parallel with, the Departmental Change Programme. This baseline assessment will establish what functions are appropriate as agencies and NDPBs. This review also proposes that departments should replace quinquennial reviews with end-to-end reviews of the effectiveness of business processes.

25. The purpose of these end-to-end reviews is for departments to assess the effectiveness of the business processes involved in achieving specific outcomes. By starting with outcomes rather than organisations, departments can identify the processes and behaviours needed and assess the capabilities and capacities available, in order to support them and to address any shortfall.

26. These reviews should address the impact of the wider operating environment – including other parts of departments setting policy frameworks or providing support, as well as other delivery agents

and customers. The end-to-end review will focus on the extent to which structures and processes are effective in contributing to achieving specific departmental outcomes.

27. The methodology for these reviews should be developed as part of the Departmental Change Programme. Lessons from quinquennial reviews suggest that the process needs to utilise and build on existing performance monitoring, benchmark and review and to engage those involved throughout.

28. Each department should produce a programme of reviews as part of its business plans. Reports of reviews and future schedules would be agreed with the Treasury in each Spending Review, to enable any recommendations for change to be effected and supported by resource decisions.

29. As part of strategic planning, departments, agencies and NDPBs should address the effectiveness of internal business processes, identify new customer needs and introduce external comparison and challenge to the assessment of strategic performance. Some business process reviews may identify the need to look in more detail at particular activities. This work should build on existing quality regimes and public and private sector benchmarking and take account of the views of independent members, customers and stakeholders.

Recommendation 7

Departments must integrate policy development, service delivery and support services to achieve more than the sum of the individual parts. **The central programme of quinquennial reviews of agencies and NDPBs should be abolished and replaced by business reviews of the end-to-end processes involved in achieving specific outcomes. The Departmental Change Programme should develop a methodology for defining and implementing such a programme of reviews. The cycle of reviews should be integrated with departments' business planning processes and specific priorities for review agreed as part of Spending Review decisions.**

Incentives to improvement

30. The Government is currently in the process of setting national standards for a number of public services, which will outline what the users have a right to expect. Initially they focus on health, crime, transport and education. However, all departments will be setting standards for their particular customers.

31. In assessing how organisations perform against the national standards, four categories will be used:

- high performing;
- striving;
- coasting; and
- poorly performing.

32. The concept of 'earned autonomy' is that, as government increasingly seeks to delegate delivery against national standards, high performers will be awarded extra flexibilities. However, they will not hand over resources or power where the local service is not delivering well; on the contrary, intervention will be in inverse proportion to successful performance.

33. This is a model that is being introduced across the public services. It could also have relevance to improving the strategic performance management of agencies. Whilst a national standards framework or 'league table' would be impossible and inappropriate to apply across 127 agencies, each of which delivers a different service, it is important that every agency should operate within an individual framework of standards with clear accountability for their delivery and that both good and bad performance generate appropriate responses.

34. This framework of response should not lead to the withdrawal of basic delegations essential for effective management; rather, it should encourage good performance with greater flexibilities and should intervene to address the needs of poorly performing organisations.

35. Departments should develop arrangements for establishing a clear framework of agreed standards to be met and defined accountabilities, with comparative performance information and agreed definitions of success. They should develop a framework of flexibilities and interventions with which to respond to different levels of performance. The Departmental Change Programme offers an opportunity to identify what this means for an individual department and its agencies and NDPBs, and how it might be applied.

Recommendation 8

Strategic performance monitoring lacks both focus and response. **In the context of the Departmental Change Programme, departments should define, together with their agencies, an appropriate framework of standards and targets which would encourage excellence and continuous improvement and address poor performance, with support from the Cabinet Office or Treasury where new flexibilities may be useful to agency management.**

Delegations

'As a chief executive, I'm only interested in service delivery – not in "big game" politics.'

Agency chief executive, autumn 2001

'Trading Fund status has reduced bureaucracy but the mass of returns we have to do for the centre adds no value to the business, is time-consuming and is unnecessary effort.'

Trading Fund chief executive, autumn 2001

'If a private sector holding company was run by people with no experience whatsoever of the frontline, the subsidiaries would go to the wall.'

Ex-senior civil servant, autumn 2001

'I'm constrained by daft rules.'

Agency chief executive, autumn 2001

1. Agencies' specific responsibilities to Ministers for delivering various central government services are accompanied by authorities and delegations to enable them to deliver effectively.

2. Prior to the creation of agencies, the Civil Service was a single organisation, with human resources and finance issues handled centrally either by HM Treasury and the Cabinet Office or by departments themselves. Terms and conditions for some 700,000 staff were uniform and a monolithic grade structure took little account of the variety of jobs to be done. By giving agencies specific delegations, it was hoped that they would match human and financial resources to the needs of the job and thereby improve the delivery of services to both internal and external customers.

3. This emphasis on delegation and flexibility has been given further weight by the Prime Minister's four principles of public service reform, with their emphasis on removing unnecessary bureaucracy and freeing successful organisations and the staff working in them to innovate and respond flexibly and creatively to customers' requirements. A centralised system is unlikely to deliver the flexibility or responsiveness required to react to the requirements of customers.

4. The availability and effectiveness of delegations has been uneven, depending on, amongst other things:

- the nature of the funding regime;
- the size of the agency; and, most of all,
- the culture of the agency's parent department.

5. On the one hand, chief executives believe that their ability to shape personnel strategies and manage resources flexibly has been an essential element in helping agencies to deliver better services. This is supported by management theories and evidence from across the public and private sectors. On the other hand, some departments believe that widespread use of delegations leads to an inefficient use of scarce resources and a watering-down of corporate identity.

6. Delegations should not rest with agency headquarters. At the heart of the Government's principles of public service

reform is the wish to link empowerment of local deliverers with the flexibility to encourage excellent performance at the front line. Unnecessary restrictions will ultimately constrain effective delivery. Many agencies have large centres of hundreds, sometimes thousands, of staff. The managers of these centres need the authorities to run these operations to suit the local environment, such as the labour market and the composition of the staff, within clear frameworks of standards and outcomes sought.

7. Nearly 90 per cent of chief executives responding to the review team's questionnaire were satisfied with existing delegations, given the constraints their departments faced. However, nearly 40 per cent felt that they would be able to deliver services more effectively with more flexibility over the use of financial and human resources. Their main concerns were:

- the insecurity or unavailability of End Year Flexibility (EYF);
- the need for freedom to reinvest income raised;
- the ability to attract and retain high-quality staff with competitive pay and rewards, and to recruit them quickly; and
- the desirability of performance-based individual and team rewards to encourage continuous improvement.

Financial delegations

Financial planning

8. Whilst all departments now receive their funding on a three-year basis, many agencies are still allocated their funding on an annual basis by their departments. Three-year funding was introduced to enable more coherent and effective planning and resource allocation. The review team recommends that all agencies should receive three-year funding based on a three-year business plan.

9. EYF is available to departments to facilitate sensible planning where a department's actual expenditure in a financial year differs from its Departmental Expenditure Limit (DEL). Departments have the freedom to carry money over into the next financial year and, although some do not pass on this flexibility, most agencies do plan on the basis of EYF.

10. However, some departments lose all EYF as a result of calls on the contingency reserve for unexpected emergencies, such as the Department for Environment, Food and Rural Affairs in the case of the Foot and Mouth epidemic. Their agencies and NDPBs also lose their EYF where this happens. Other departments routinely remove EYF from their agencies in order to subsidise overspending elsewhere within the department; and some departments do not make it available at all.

11. In all of these circumstances, the agency's plans are disrupted for reasons unrelated to their own performance. The problem is compounded if, by spending less than it had planned as a result of withdrawal of EYF, an agency's budget is reduced in subsequent years.

12. Overall, however, the national accounts are not at risk; in 2000/01 total EYF amounted to £6.68 billion, or some 3 per cent of Departmental Expenditure of £212 billion. Very few agencies would have a significant impact on this figure, so allowing them more scope to retain EYF would not carry substantial risk.

13. EYF is an issue that is of concern to many chief executives. They recognise that departments cannot breach their DELs and there will be exceptional circumstances when DELs will be withdrawn. When this happens, departments should discuss with senior managers, including chief executives and the Treasury, how to handle the situation.

14. In response to representations from a number of agencies and non-departmental public bodies (NDPBs), the Treasury set up a working group drawn from these bodies and departments to look at how to improve the system and the incentives it gives for value for money. The suggestions included:

- full EYF entitlement with fines on overspenders by reducing their budget for the following year;
- partial EYF – the department could allow EYF up to a ceiling or carry forward a proportion of any underspend; and
- qualified EYF – the department could allow 100 per cent of EYF but make clear that this be subject to review of specific cases where an underspend might be indicative of a continuing reduction in spending needs. Alternatively, the department could ask for forecast underspends before the end of the financial year and only allow carry forward of amounts declared at that stage.

15. A model of good practice combining these elements was proposed in order to guarantee 80 per cent of EYF entitlements following a review of the emerging position each autumn. Departments were asked to examine with their agencies and NDPBs which approach would best suit their circumstances and to report back to the Treasury.

16. It would be helpful if departments had to account for action taken and to ensure that in future years an agency's baseline is not lowered if its EYF is taken away – unless, of course, this is a response to overfunding. The Treasury should ask departments during the current Spending Review to report on how they have handled EYF over the last two years, clearly spelling out any reasons why EYF has not been allowed. The Treasury should then consider how best to provide for effective EYF in future, revising the good practice model as necessary.

Recommendation 9

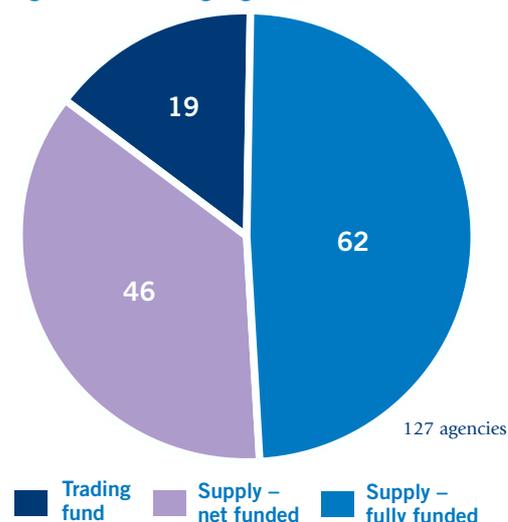
Agency business planning must be integrated with departmental business planning. **Following the 2002 Spending Review, departments should ensure that agencies have three-year funding agreements to support three-year business plans.**

Recommendation 10

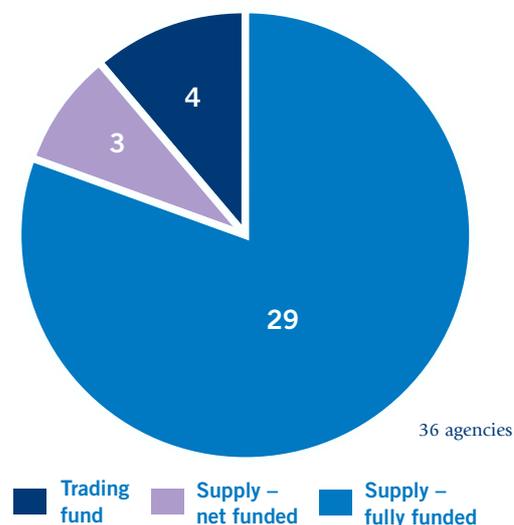
End year flexibility (EYF) should normally be made available by all departments in line with Treasury guidance. Departments should discuss with their agencies and report on their proposed management of EYF to the Treasury before the end of 2002.

Funding regimes

Agencies – funding regime



MoD agencies – funding regime



17. Agencies are either supply-financed through money voted by Parliament or financed through a trading fund. A trading fund can more easily respond to changes in the demand for its products or services because it has the authority to use income, for example to take on more staff or additional facilities or plant and machinery. It can take advantage of business opportunities without seeking Supplementary Estimates. In addition, a trading fund can retain the cash it generates and is not subject to the rigidity of annuality or the requirement to surrender cash.

18. As trading funds are controlled through the achievement of financial targets relating to return on capital employed, managers and staff are encouraged to think more commercially, to find opportunities to cut costs and to seek out more efficient ways of operating.

19. Trading funds have a greater ability to invest in capital expenditure in response to demands elsewhere. So long as there is no requirement to take on additional loans (which would affect the department's capital DEL), trading funds are free to invest, for example from accumulated cash balances. The capital expenditure of a supply-financed agency counts against the DEL and hence may be cut back if there is pressure.

20. Trading funds will also be able to utilise increased income for reinvestment as a result of the changes to capital funding from 2003/04. Currently the department's DEL includes the profit or loss of the trading fund and any subsidies paid to it, and its capital DEL includes the total capital expenditure of the agency rather than any grants or loans given to it by the department. The changes will mean that only the department's transactions with the trading fund will score in its DEL, rather than the total profit or loss and capital expenditure.

21. Currently only 19 of the 127 agencies are trading funds. Whilst trading fund status will not be suitable for a number of agencies, particularly those that do not charge for any of their services or those that have an inconsistent or unreliable income stream, the review team believes that departments should be encouraged to expand this number.

22. There are a number of statutory and administrative tests that have to be satisfied before trading fund status can be given. Currently the process of setting up a trading fund can be extremely cumbersome and time-consuming. There are, of course, good reasons for this, not least that the criteria for establishing a trading fund are laid down in law. However, it would be worth exploring how to streamline this process without losing its thoroughness.

23. This could be achieved if departments were to ensure that the basic robust building blocks were in place before initiating the formal approval process. A potential trading fund candidate should have experience of trading, have a sound financial track record and show that the freedoms associated with trading fund status will lead to demonstrable efficiencies and more effective management of the operations. The Treasury should work with departments to identify agencies that might be candidates for trading fund status and support the process of transition to it.

24. A common difficulty that afflicts many agencies (as with other public sector organisations) is the lack of investment capital. Assets now beyond their projected working life can adversely affect levels of service. Imaginative ways must be found to generate additional funding, with clarity as to the appropriateness of diversification within agreed strategic frameworks.

Generating additional income

As a result of successful diversification into consultancy services for the NHS and the private sector, West Yorkshire Metropolitan Ambulance Service has been able to invest in its core business with new vehicles and state-of-the-art technology. As a result, the NHS Trust is at the top of the performance tables, whereas ten years ago it was near the bottom.

25. The Government's policy is that departments and their agencies should enhance the use and value of their assets. In a number of cases, this may involve exploiting their commercial potential. Selling services into wider markets gives agencies the opportunity to retain the benefit of receipts generated by such sales.

Recommendation 11

Departments should explore with agencies, as part of the end-to-end reviews proposed in Recommendation 7, the opportunities offered by trading fund status and enable agencies to use income generation to support capital investment in future services. Departments should also consider with their agencies how to get the best out of their assets, which may mean acting more commercially or expanding into wider markets where appropriate.

Pay

26. Pay bargaining has been delegated to all departments by the Treasury. Many departments in turn delegate pay bargaining to their agencies. Some small agencies were not given this freedom and some chief executives feel that having it would be an unnecessary distraction. Others find it essential to achieve effective recruitment and retention.

27. Recently a number of departments have been reconsidering the benefits of pay delegations, believing they might have increased expenditure unnecessarily or driven up their total pay bill as some agencies have raised pay levels in order to compete for staff with other agencies.

The review team has found no evidence to substantiate this claim. If anything, the evidence suggests that pay levels in agencies tend to be lower than those in parent departments.

28. Recentralising pay bargaining at departmental level may lead to adverse effects, such as staff shortages and service reductions. Since pay delegation, departments and agencies have developed their performance and reward practices independently and total reward levels (including pay) should have been set to meet organisations' objectives. As the objectives of each Civil Service organisation are different, so too are their total reward levels.

29. Concerns have been expressed that differential pay structures discourage staff interchange, yet most agency chief executives feel that geography and cultural issues are far more significant in discouraging movement between agencies and departments.

30. Pay costs will form a large part of any agency's running costs and a chief executive must have the ability to control such costs if they are to run the business effectively. Some are very concerned by, for example, the impact of unfunded increases in Senior Civil Service (SCS) pay. These are outside their control. Departments such as the Department for Work and Pensions, which has recentralised pay bargaining to provide easier movement for similarly skilled staff across their businesses, should monitor the impact on services in order to manage the risks to service delivery that may result.

Human resources

31. Departments have been delegated a number of freedoms to manage their staff effectively, including: recruitment into all grades below the SCS; recruitment of most senior staff; promotion; and pay. A department may choose whether to give the same delegations to its agencies.

32. A common theme in interviews with chief executives and others was that empowering agencies through delegation of personnel management was key to driving up service delivery. The core areas that made a difference were:

- recruitment, including into the SCS; and
- day-to-day career management of staff, including promotion.

33. As with pay delegation, some agencies have service-level agreements with their departments to provide these services for them. As they are usually small, this makes sense in terms of the cost involved. Many larger agencies have been using these freedoms successfully to provide services more cost-effectively.

34. Departments have been delegated responsibility for recruitment and appointment, within the guidelines issued by the Civil Service Commissioners, into all SCS posts apart from the very senior appointments. As with other delegations, they can pass this on to agencies but this has not happened in some departments and in other cases it has only been granted for specialist posts. The primary reasons departments give for not granting this delegation are that they are concerned about corporate standards and they view the SCS as a corporate resource which should be managed centrally.

35. Whilst departments do need a cadre of senior managers who can be used as a corporate resource, it should not be essential that all of these posts are recruited centrally. Chief executives are usually best placed to know the kind of person they require. It is often the case that agencies require specific management skills that can best be obtained from outside their parent department or even the Civil Service. In many cases it is unlikely that senior managers appointed to agency posts would be interested in moving to core departmental posts but would want to move on elsewhere once their appointment finished. In relation to corporate standards, all jobs advertised for the SCS are protected by the requirements and processes imposed by the Civil Service Commissioners. Concerns could also be met by having departmental representation on an agency recruitment board.

36. Centralisation of support functions in a large department can lead to a producer-led approach from the centre that is distanced from the needs of customers and local labour markets, undermining the delivery of services. Some of the local managers interviewed for this review are worried that centralisation will hamper improvements in front-line delivery, as large central units might not be as speedy or responsive to their needs as they require.

Shared services

A 'shared service model' is used for some services in the Department for Work and Pensions (DWP). Whilst this model centralises service provision, both to reduce costs and to improve expertise and quality, it also operates as a common resource, serving a number of businesses to their specification. In the private sector, where a number of large organisations have adopted this approach, such arrangements usually cover areas such as facilities management but not functions such as local recruitment.

DWP is currently reviewing the range of its human resources, financial, estates and other support services to assess which should be managed directly by individual agencies and businesses themselves and which are to be provided as a shared service, centrally managed either by headquarters or by one business unit on behalf of all.

The changes were still bedding in when the review team visited some of the DWP offices affected by the centralisation of HR services. Understandably, local offices emphasised their concerns that any diminution of local flexibility could affect service delivery.

Departments considering such changes should ensure that service levels do not reduce as a result and that service level agreements can be enforced by the front line.

Centralising to delegate

In the Inland Revenue organisational restructuring has moved a number of human resources functions in some areas of business from smaller units to larger business streams. Evidence from interviews suggests that, if this process were to continue, it might affect the responsiveness of front-line units. However, as a result a number of delegations are in the process of being passed further toward the front line than they have ever been before.

37. Recent business history both in the private sector and public services suggests that a locally flexible organisation is more likely to deliver a high-quality service and have a much more dynamic and innovative approach to its customers than one that is highly centralised. Agencies believe that where they have been denied personnel and financial freedoms they have been constrained in addressing the requirements of their customers speedily. In addition, valuable management time and scarce resources are needed to liaise with central units.

38. The review concluded that agencies should be able to:

- manage all staff working in the agency, including recruitment and promotion;
- vary terms and conditions to respond to the local employment market.

39. However, the review recognises that very small agencies will prefer to continue to use departmental services to achieve this if it is more cost-effective to do so. It should be open to such agencies to opt in or opt out of departmental support services.

40. Agencies for their part should avoid (and in most cases because of cost pressures are bound to avoid):

- trying to reinvent the wheel;
- empire-building;

- duplication within larger agencies; and
- poor communication with departments as to what is happening.

41. For delegation to work effectively, two-way continuous dialogue between an agency and a department is essential and, in larger agencies, there has to be that same level of communication within the organisation.

42. Delegation is a means to an end, not an end in itself. Each department could usefully carry out an audit, in full co-operation with its agencies, to ensure that each agency has the freedoms required to do the job properly and to set out the benefits and terms of any constraints imposed on the use of resources.

43. Flexibility and management of risk are key to good management and running a successful business operation which is focused on users. Departments and agencies must work together in partnership to ensure that operational units are properly equipped to operate successfully. It is highly unlikely that any agency will be successful if they are unable to manage the business effectively.

Recommendation 12

Effective management of staff has been at the heart of the improvements in performance achieved by agencies, providing for an outward and downward focusing of resources. **Agencies should be able to recruit, structure, promote and manage staff effectively in the light of local needs and labour markets, including staff in the Senior Civil Service, within the requirements set out in the Civil Service Management Code, and to enforce service-level agreements when these and other support functions are provided by departments.**

The Royal Parks Agency manages one of Britain's major cultural amenities. The Royal Parks are a living, green, historical resource that makes a vital contribution to London's status as a 'world city', and offers unrivalled opportunities for recreation and enjoyment for every nationality and age group, for tourists and locals, for walkers, riders and runners alike.



THE OFFICIAL PROGRAMME - ON SALE NOW



The next steps

1. Agencies are a heterogeneous group of organisations delivering many varied services to external and internal customers. They have revolutionised management within nearly three-fifths of the Civil Service by introducing a performance culture and bringing external focus to high-profile and hidden areas of central government activities alike. There is much more scope to build on this successful model.
2. The central theme of this report is the need for departments to change their focus to emphasise the achievement of defined outcomes for customers and citizens. This will mean harnessing the skills of delivery agents much more effectively, alongside those of policy advisers, to create a strong performance culture at the heart of departments as well as to support clear strategies and to monitor strategic performance.
3. A new revolution is needed to address the current need for cross-cutting and integrated government services and to create leadership teams in departments and agencies who are driven by the desire to improve services. It has begun in the programme of Civil Service reform and the new public service reform agenda and in many of the changes being put in place by a new generation of Permanent Secretaries and agency chief executives. It needs to be led by the teams at the top of every department if it is to be successful.
4. The review team believes, therefore, that **departments should be responsible** for delivering the better government services that would result from the implementation of the recommendations in this report. The review has considered the possibility of external inspectorates to drive up performance. But, first, the tasks are hugely varied and individual responses must be tailored to the needs of each department and its agencies. Secondly, it is fundamental to the review's approach that the policy framework is as important to effective service delivery as the implementation of that framework and should not be separated further from it.
5. The review proposes that its recommendations should be built into the development of two key processes: the new **Departmental Change Programme**; and the **business planning cycles of departments and agencies**, including the biannual Spending Reviews.
6. The Departmental Change Programme (DCP), which has been developed by the Office of Public Services Reform in the Cabinet Office, will enable departments' overall performance to be measured and compared with the model of an 'ideal' department. The recommendations of this report should feed into the 'ideal' model to cover the skills and experience of leadership teams; the need to fill skills gaps in either policy or delivery arms; simple, clear governance models, including the role of sponsors and non-executive directors; the key frameworks, information flows and criteria for strategic performance management and response; and the framework of delegated authorities to accompany identified responsibilities.

7. The DCP will also develop methodologies for:
- the one-off 'landscape' reviews of whether historical delivery structures are still appropriate; and
 - the continuing programme of end-to-end reviews of the effectiveness of business processes in achieving specific outcomes that will replace quinquennial reviews.
8. The results of these reviews will feed into the business planning processes and into the resource framework through the **Spending Reviews**. The Spending Reviews are also a key mechanism for involving delivery agents in the alignment of targets and for assessing the effectiveness of the use of flexibilities, freedoms and powers of intervention.
9. Agencies also have a vital role to play to ensure successful outcomes are achieved. Driving up performance is a two-way process and agencies should get involved right from the start. This will involve effective communication with departments in order to build a high level of trust.
10. Agencies must ensure that they have a robust performance management system and that targets are directed at measuring priority areas that drive the business. Target-setting should be seen as a valuable tool in improving performance. Agencies must ensure that proper management systems are in place to measure their achievements.
11. The Cabinet Office and the Treasury should continue to be jointly responsible for policy on executive agencies. New guidance should be issued covering the core elements of agency status, including the new approach to reviewing framework documents. The Cabinet Office also has a continuing and valuable role to play in giving policy advice on setting up new agencies, framework documents, reports and accounts and in using the material that is gathered for agencies' own management purposes to provide good practice guidance and, where appropriate, comparable data to demonstrate good – and poor – performance.
12. The Cabinet Office should build on its 2001 audit of the reporting requirements accompanying initiatives such as modernising government and e-business and its recommendations that the centre should do more to simplify them and achieve a lighter touch. The Cabinet Office should follow this with a detailed 'housekeeping' review of all reporting and other requirements placed on delivery agents by the centre of government, with the aim of reducing to a minimum the burden they create.

The **Highways Agency** maintains, operates and improves 5,750 miles of trunk roads and motorways in England. This network is the single largest Government asset, currently valued at an estimated £60 billion, and carries one third of all road traffic and two-thirds of all freight traffic, totalling around 100 billion miles travelled each year.



Annexes

Annex A – Selected facts and figures on agencies

(position as at the end of March 2002)

Department and agency	Year established	Primary function or service (see note 1)	Number of staff	Funding regime (see note 2)
Attorney General				
Treasury Solicitor's Department*	1996	Internal	450	NF
Cabinet Office				
Government Car and Dispatch Agency	1997	Internal	260	NF
Central Office of Information*	1990	External	400	TF
Department for Culture, Media and Sport				
Royal Parks Agency	1993	External	230	FF
Department for Environment, Food and Rural Affairs				
Central Science Laboratory	1994	Research	580	NF
Centre for Environment, Fisheries and Aquaculture Science	1997	Research	480	NF
Pesticides Safety Directorate	1993	Regulatory	180	NF
Rural Payments Agency	2001	External	3500	FF
Veterinary Laboratories Agency	1990	Research	1150	NF
Veterinary Medicines Directorate	1990	Regulatory	110	NF
Department of Health				
Medical Devices Agency	1994	Regulatory	150	FF
Medicines Control Agency	1991	Regulatory	460	TF
NHS Estates	1991	Internal	320	TF
NHS Pensions Agency	1992	Internal	450	FF
NHS Purchasing and Supply Agency	2000	Internal	290	FF

Department and agency	Year established	Primary function or service (see note 1)	Number of staff	Funding regime (see note 2)
Department of Trade and Industry				
Companies House	1988	Regulatory	940	TF
Employment Tribunals Service	1997	Regulatory	640	FF
Insolvency Service	1990	Regulatory	1230	FF
National Weights and Measures Laboratory	1989	Regulatory	50	NF
Patent Office	1990	Regulatory	890	TF
Radiocommunications Agency	1990	Regulatory	530	NF
Small Business Service	2000	External	350	FF
Department for Transport, Local Government and the Regions				
Driver and Vehicle Licensing Agency	1990	External	4850	NF
Driving Standards Agency	1990	External	1660	TF
Fire Service College	1992	Internal	190	TF
Highways Agency	1994	External	1560	FF
Maritime and Coastguard Agency	1994	Regulatory	1030	NF
Planning Inspectorate	1992	Regulatory	660	FF
Queen Elizabeth II Conference Centre	1989	External	50	TF
The Rent Service	1999	Regulatory	870	FF
Vehicle Certification Agency	1990	Regulatory	90	NF
Vehicle Inspectorate	1988	External	1850	TF
Ordnance Survey*	1990	External	1855	TF
Department for Work and Pensions				
Appeals Service Agency	2000	External	900	FF
Benefits Agency (closed March 2002)	1991	External	68,480	FF
Child Support Agency	1993	External	9420	FF
Employment Service (closed March 2002)	1990	External	32,300	FF
Food Standards Agency (see note 3)				
Meat Hygiene Service	1995	Regulatory	1930	NF

Department and agency	Year established	Primary function or service (see note 1)	Number of staff	Funding regime (see note 2)
Forestry Commission				
Forest Enterprise	1996	External	2250	NF
Forest Research	1997	Research	275	NF
Foreign and Commonwealth Office				
Wilton Park	1991	External	50	NF
HM Treasury				
Debt Management Office	1998	Internal	40	FF
Royal Mint*	1990	External	1050	TF
National Savings*	1996	External	110	FF
Office for National Statistics*	1996	Research	3030	NF
Home Office				
Forensic Science Service	1991	Research	2190	TF
HM Prison Service	1993	External	41,940	FF
UK Passport Agency	1991	External	2270	NF
Inland Revenue				
Valuation Office	1991	Internal	3820	NF
Lord Chancellor's Department				
Court Service	1995	External	9230	NF
Public Guardianship Office	2001	External	330	NF
HM Land Registry*	1990	Regulatory	7750	TF
Public Record Office*	1992	Regulatory	420	NF
Ministry of Defence				
Armed Forces Personnel Administration	1997	Internal	120	FF
Army Base Repair Organisation	1993	Internal	2600	FF
Army Personnel Centre	1996	Internal	1240	FF
Army Training and Recruiting Agency	1997	Internal	4310	FF
British Forces Post Office	1992	Internal	350	NF
Defence Analytical Services Agency	1992	Internal	130	FF
Defence Aviation Repair Agency	2001	Internal	4420	TF
Defence Bills Agency	1996	Internal	590	FF

Department and agency	Year established	Primary function or service (see note 1)	Number of staff	Funding regime (see note 2)
Ministry of Defence (continued)				
Defence Communication Services Agency	1998	Internal	3000	FF
Defence Dental Agency	1996	Internal	891	FF
Defence Estates Agency	1997	Internal	1320	FF
Defence Geographic & Imagery Intelligence Agency	2000	Internal	750	FF
Defence Housing Executive	1999	Internal	970	FF
Defence Intelligence and Security Centre	1996	Internal	130	FF
Defence Medical Training Organisation	1997	Internal	170	FF
Defence Procurement Agency	1999	Internal	3760	FF
Defence Science and Technology Laboratory	2001	Internal	3000	TF
Defence Secondary Care Agency	1996	Internal	700	FF
Defence Storage and Distribution Agency	1999	Internal	3040	FF
Defence Transport and Movements	1999	Internal	310	FF
Defence Vetting Agency	1997	Internal	340	FF
Disposal Sales Agency	1994	Internal	80	NF
Duke of York's Royal Military School	1992	Internal	100	FF
Medical Supplies Agency	1996	External	405	FF
Meteorological Office	1990	External	2090	TF
Ministry of Defence Police	1996	Internal	3320	FF
Naval Manning Agency	1996	Internal	110	FF
Naval Recruiting and Training Agency	1995	Internal	1080	FF
Pay and Personnel Agency	1996	Internal	650	NF
Queen Victoria School	1992	Internal	70	FF
RAF Personnel Management Agency	1997	Internal	240	FF

Department and agency	Year established	Primary function or service (see note 1)	Number of staff	Funding regime (see note 2)
Ministry of Defence (continued)				
RAF Training Group Defence Agency	1994	Internal	2030	FF
Service Children's Education	1996	External	710	FF
UK Hydrographic Office	1990	External	840	TF
War Pensions Agency	1994	External	900	FF
Warship Support Agency	2001	Internal	2430	FF
Northern Ireland Office				
Compensation Agency	1992	External	125	FF
Forensic Science Agency	1995	Research	115	NF
Northern Ireland Prison Service	1995	External	3030	FF
Northern Ireland Executive				
Business Development Service	1996	Internal	235	NF
Construction Service	1996	Internal	550	FF
Driver and Vehicle Licensing	1993	External	260	NF
Driver and Vehicle Testing Agency	1992	External	295	TF
Environment and Heritage Service	1996	External	330	NF
Forest Service	1998	Research	380	NF
Government Purchasing Agency	1996	Internal	90	NF
Health Estates	1995	Internal	125	FF
Industrial Research and Technology Unit	1995	Research	150	FF
Land Registers of Northern Ireland	1996	Regulatory	190	NF
Northern Ireland Child Support Agency	1993	External	1110	FF
Northern Ireland Statistics and Research	1996	Research	220	NF
Ordnance Survey of Northern Ireland	1992	External	175	NF
Planning Service	1996	Regulatory	405	NF
Public Record Office of Northern Ireland	1995	Regulatory	60	NF
Rate Collection Agency (NI)	1991	External	240	FF

Department and agency	Year established	Primary function or service (see note 1)	Number of staff	Funding regime (see note 2)
Northern Ireland Executive (continued)				
Rivers Agency	1996	External	415	FF
Roads Service	1996	External	1985	FF
Social Security (Northern Ireland)	1991	External	4845	FF
Valuation and Lands Agency (NI)	1993	Internal	215	NF
Water Service	1996	External	2105	NF
Scottish Executive				
Communities Scotland	2001	External	600	FF
Fisheries Research Services	1997	Research	270	NF
HM Inspectorate of Education	2001	Internal	160	FF
Historic Scotland	1991	External	590	NF
National Archives of Scotland	1993	External	120	NF
Scottish Agricultural Science Agency	1992	Research	130	NF
Scottish Court Service	1995	External	850	NF
Scottish Fisheries Protection Agency	1991	Regulatory	260	NF
Scottish Prison Service	1993	External	4430	FF
Scottish Public Pensions Agency	1993	External	170	FF
Student Awards Agency for Scotland	1994	External	140	NF
Registers of Scotland*	1990	External	1260	TF
Welsh Assembly				
Cadw: Welsh Historic Monuments	1991	External	200	NF
Welsh European Funding Office	2000	External	150	FF

*These agencies are also departments in their own right. They report to Ministers in the departments shown.

Note 1: Agencies classified as primarily for external customers, internal customers, research or regulation.

Note 2: Trading funds (TF), fully funded (FF) and net funded (NF) agencies are discussed in chapter 6.

Note 3: The Food Standards Agency is a non-ministerial department accountable to Parliament through Health Ministers, and to the devolved administrations in Scotland, Wales and Northern Ireland for its activities within their areas.

Annex B – Agencies’ background and development

1. Before agencies were created, the Civil Service was a large monolith governed by a body of centrally laid down rules, even though it was too big and diverse to be managed as a single entity. This led to a culture more focused on avoiding errors than improving results. The then Prime Minister commissioned her Efficiency Adviser, Sir Robin Ibbs, to suggest how to move matters on.

The Ibbs Report

2. Sir Robin’s report, *Improving Management in Government*, was published in February 1988. Its main findings included the following:

- there was insufficient focus on the delivery of government services (as opposed to policy and ministerial support), even though 95 per cent of civil servants worked in service delivery or executive functions;
- there was a shortage of management skills and of experience of working in service delivery functions among senior civil servants;
- short-term political priorities tended to squeeze out long-term planning;
- there was too much emphasis on spending money, and not enough on getting results;
- the Civil Service was too big and diverse to manage as a single organisation; and
- while the introduction of systems was a start, real changes in attitudes and institutions were needed to get the full benefits of better management.

3. In the light of this the report made three main recommendations, that:

- ‘agencies’ should be established to carry out the executive functions of government within a policy and resources framework set by a department. The principle was to be that agencies must be left as free as possible to manage within this framework;
- departments were to ensure that their staff were properly trained and experienced in the delivery of services, whether within or outside central government; staff would then be in a position to develop and interpret government policy and manage its agencies in a way that would maximise results; and
- a full Permanent Secretary should be designated as ‘project manager’ to ensure that the changes took place.

4. At the heart of the report’s approach was the need to reorientate systems and attitudes to focus on the delivery of services and, flowing from this, on the needs of the recipients of these services – the customers – whether outside or inside government. In addition it was recognised that however much systems are changed, real improvements depend on individuals being personally responsible for results. A sense of ownership and personal identification is essential to getting better performance.

5. The report suggested that an agency offered the most practical way of organising work to take account of these realities. An agency was defined as a discrete area of work with a single named individual – a chief executive – in charge, with personal responsibility to the Minister for day-to-day management. The agency would be structured and focused on the job to be done. The Minister would be responsible for allocating resources and setting annual targets for the results to be achieved. The Minister would delegate managerial responsibilities to the chief executive and he or she would have authority to decide how best to run the organisation and get the job done within the available resources.

6. The first agency, the Vehicle Inspectorate, was launched in August 1988. It was soon followed by a number of others, and over the following 10 years around 150 agencies were launched. Agencies came to be seen as the key vehicle for delivering central government services, and virtually every department had at least one of them.

The Financing and Accountability of Next Steps Agencies

7. This 1989 White Paper described the financing and accountability regime for Next Steps agencies. It was published in association with the Government Trading Bill, which proposed powers to create trading funds to finance central government activities.

8. The White Paper acknowledged that effective management of agencies would demand better, more timely and more comprehensive information on all aspects of performance. It stated the aim of the Next Steps initiative: 'to the greatest extent practicable, the executive functions of government, as distinct from policy advice, would be carried out by clearly designated units, referred to as agencies'. It set out the requirements for regular review (known as 'prior options reviews') and the role of framework documents. It also acknowledged that the nature of the Next Steps initiative meant that its financial and other regimes would need to develop and evolve over time.

The Fraser Report

9. In 1991 the Cabinet Office commissioned Sir Angus Fraser to look at the relationships between agencies and departments. It was not intended to reopen the principles for the establishment of agencies or to provide detailed blueprints for these relationships but rather to identify good practice. The report is mainly remembered for the concept of the 'Fraser Figure', who was to be a senior official in a department who would support Ministers in their roles in relation to agencies.

10. Other recommendations included the need for departments and agencies to develop and maintain a clear and shared vision of what an agency is there to do and of what its priorities and objectives should be. They should also continue to give a high priority to improving target-setting (the aim being for each agency to have 'a handful' of robust and meaningful top-level output targets). Departments should develop suitable pay and reward packages for chief executives that offered 'significant rewards for achieving results and clear and effective penalties for failure'. Departments should also review their changing roles in the light of the agency initiative.

11. The report did not have a major impact in Whitehall. A number of changes were made to allow greater delegations to chief executives. However, many of the other recommendations gathered dust or were implemented half-heartedly. Unlike Ibbs, the Fraser report was not seen as having strong Prime Ministerial backing. The concept of the 'Fraser Figure', while adopted by some departments, was ignored by others and there was no consistency in implementation.

The Trosa Report

12. The Cabinet Office commissioned a French civil servant, Sylvie Trosa, to carry out a study on the relationship and effectiveness of current relationships between Ministers, departments and agencies. Her report, which was published in March 1994, made a number of recommendations on Ministerial Advisory Boards, 'Fraser Figures', accountability, target-setting and the role of central departments.

13. There was a mixed reaction to the report, with reservations expressed about a number of the recommendations, some of which were viewed as being too *dirigiste*. However, some of the proposals were welcomed and the Cabinet Office issued a response in October 1994 taking some of Trosa's recommendations forward.

Other reports and developments

14. Andrew Massey's 1995 report, *After Next Steps*, explored the relationship between chief executives and Ministers and the roles of the sponsor departments and agencies in policy formulation and followed up a number of the Trosa report's recommendations. Its recommendations included the need for chief executives (especially those from the private sector) to be aware of the policy implications of management work in order to inform Ministers of problems at an early stage. It also suggested that future changes to the civil service should be put on a statutory footing to improve clarity and accountability.

15. During the 1990s a number of important developments had a direct impact on agencies. These included the drive to privatise and market-test public service functions and the introduction of the Citizen's Charter. Agencies were often used to test such initiatives.

16. By the mid-1990s, the agency was the principal organisational model for many forms of service delivery, including prison administration, welfare provision, many regulatory functions and much of the logistical, procurement and administrative support to the armed forces. By 1997, over three-quarters of civil servants in the Home Civil Service were working in agencies.

17. In the 1998 *Next Steps Report*, the new Government set out its position. It said that whilst agencies were not a complete answer to delivering better services, the principles they embodied – such as looking outwards to users; focusing on the key tasks to be delivered; and increased transparency and accountability – represented important steps in the right direction. At the same time the Government announced that it did not see the coverage of agencies extending substantially beyond the then 76 per cent figure. Instead of agency creation the main focus would be on using agencies in the most effective way. There were three key elements to this:

- ensuring that targets were sufficiently demanding;
- reporting achievement against targets in a clear and open fashion; and
- encouraging agencies to compare the ways in which they do things with best practice in analogous organisations both within and outside the Civil Service.

18. The *Modernising Government* White Paper was published in March 1999. Although agencies were the main deliverers of central government services there was very little mention of them in the White Paper. Also, the emphasis on horizontal working seemed to fire a shot across the bows of agencies, which were created to deliver discrete services.

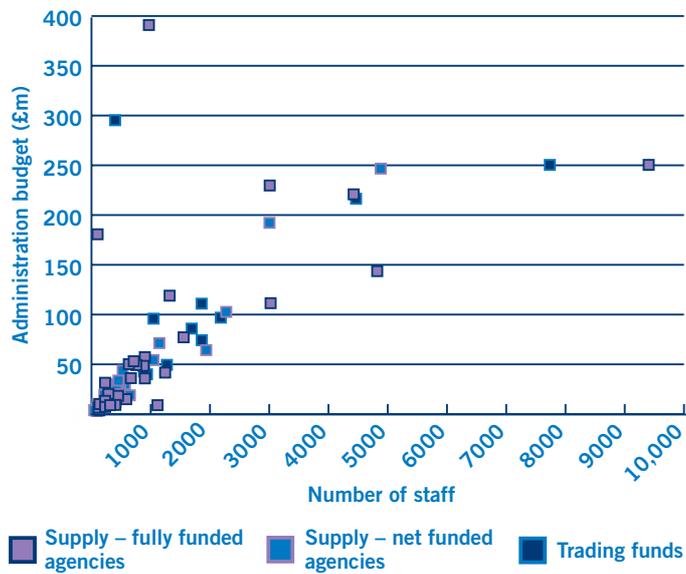
19. A greater emphasis on performance measurement and performance management has characterised recent policy. Following the 2000 Spending Review, the Government published Public Service Agreements (PSAs) covering the period 2001/04, together with new Service Delivery Agreements (SDAs) including key commitments on the management of public services. Some agencies are directly involved with SDAs. In many other cases high-level performance targets are cascaded to agencies to assist their attainment. This is reflected in agencies' key ministerial targets.

Annex C – Agencies’ range and diversity: statistics and questionnaire results

1. The 127 UK agencies, of which 92 report to Whitehall departments, are a heterogeneous group of activities managed within central government.
2. The agency model is very flexible and covers a wide variety of activities across the whole of government. In size and scale agencies stretch from the Benefits Agency (68,000 staff) and Prison Service (42,000 staff) to the Wilton Park Conference Centre (50 staff) and the Debt Management Office (40 staff). (Since the review came to an end, Jobcentre Plus has replaced the Benefits Agency and the Employment Service.)

Agencies’ size and budgets

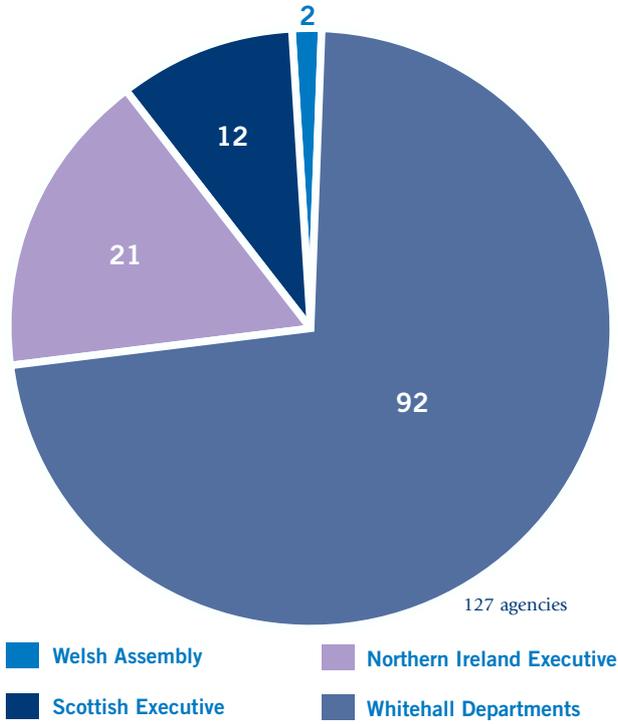
(based on a sample of 72 agencies)



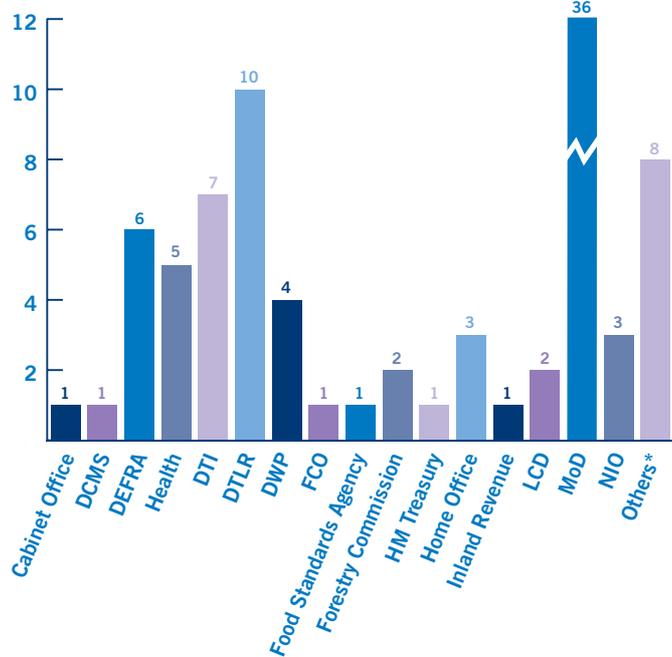
Entries for the Benefits Agency (68,000 staff, £2.5bn budget), Prison Service (42,000 staff, £1.5bn budget), Employment Service (32,000 staff, £1.1bn budget) and the Court Service (9,200 staff, £666m budget) are off the scale.

3. Of the 127 agencies, 92 report to Ministers in Whitehall departments. The other 35 report to the Scottish Executive, Northern Ireland Executive and the National Assembly for Wales.

Devolution – to whom do agencies report?



Number of non-devolved agencies, by department

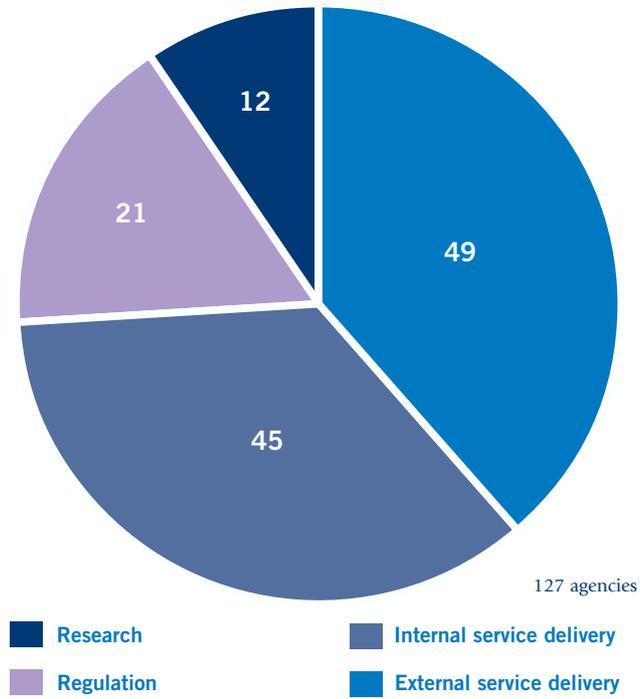


*These eight agencies (Central Office of Information, HM Land Registry, National Savings, the Office for National Statistics, Ordnance Survey, the Public Record Office, the Royal Mint and the Treasury Solicitor's Department) are departments in their own right.

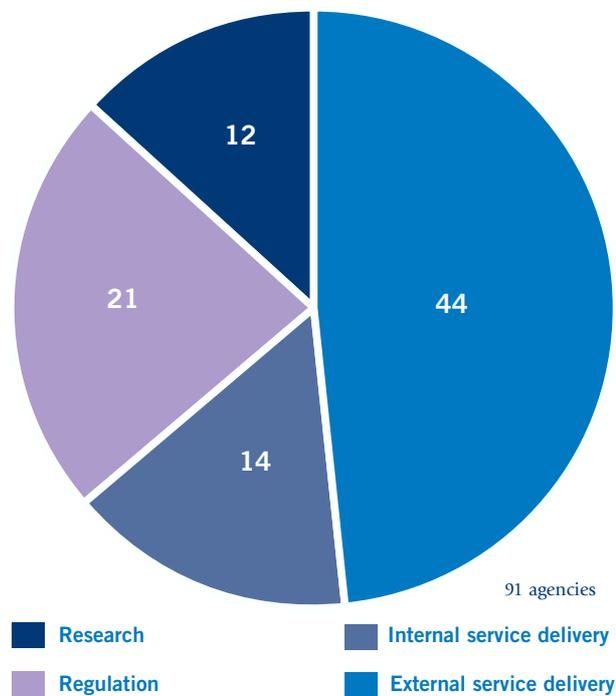
92 agencies

4. In relation to the primary functions, 49 agencies deliver services to external customers, 45 (mainly Ministry of Defence agencies) to internal customers, 12 offer mainly research services and 21 are regulators, such as the Employment Tribunal Service.

Primary function of agencies

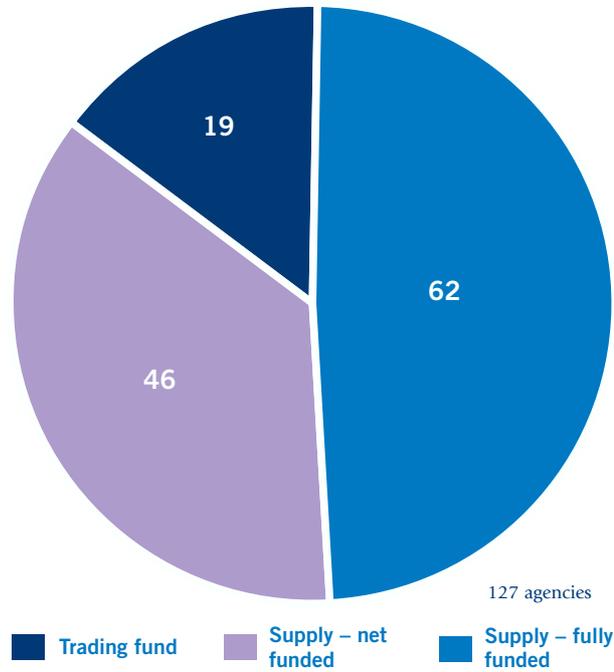


Primary function of non-MoD agencies

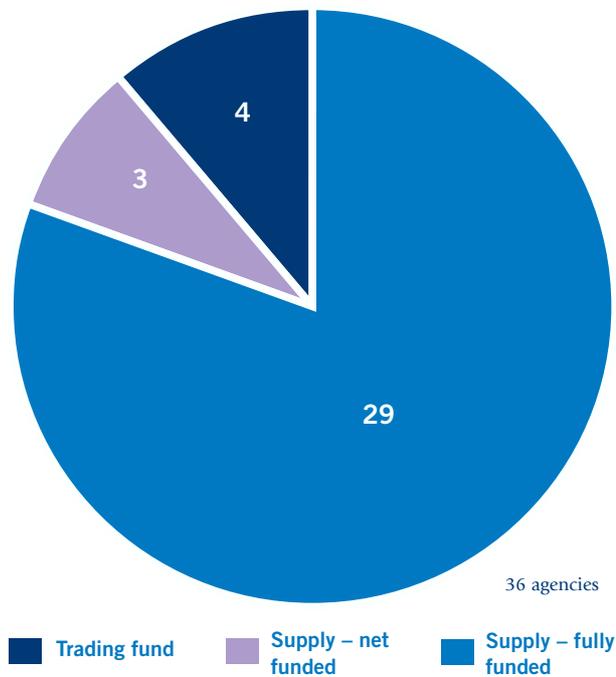


5. Agencies are either supply-financed through money voted by Parliament on a fully-funded or net-funded basis or they are financed through a trading fund. (Under a fully-funded regime, both income and expenditure are subject to control, whereas under a net-funded regime, only the net expenditure is controlled, which means that expenditure can be increased as long as there is a corresponding increase in income.)

Agencies – funding regime



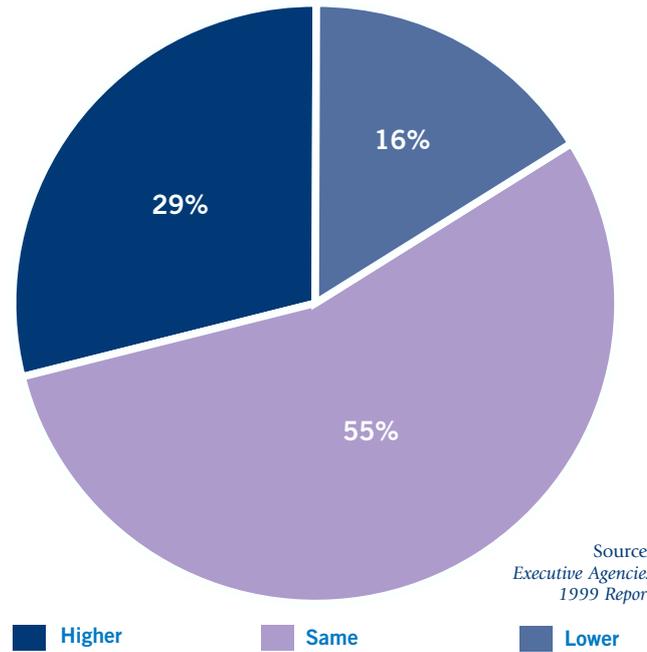
MoD agencies – funding regime



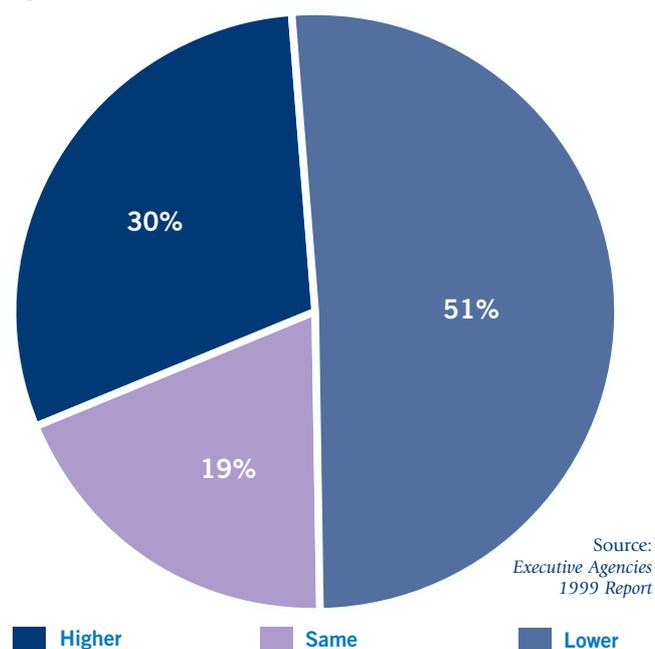
Target stretch

6. The *Executive Agencies 1999 Report* provides the latest information on performance against targets for all agencies. Of the targets set for 136 agencies plus Inland Revenue and Customs and Excise in 1998/99, 75 per cent were met or exceeded. However, where targets are comparable year on year, only 29 per cent of those set for 1999/2000 were higher than in 1998/99; 55 per cent were the same and 16 per cent were reduced. When compared with the previous year's outturn, 30 per cent of targets for 1999/2000 were higher than already achieved, 19 per cent the same and 51 per cent lower.

Targets set in 1999/2000 compared with targets for 1998/99



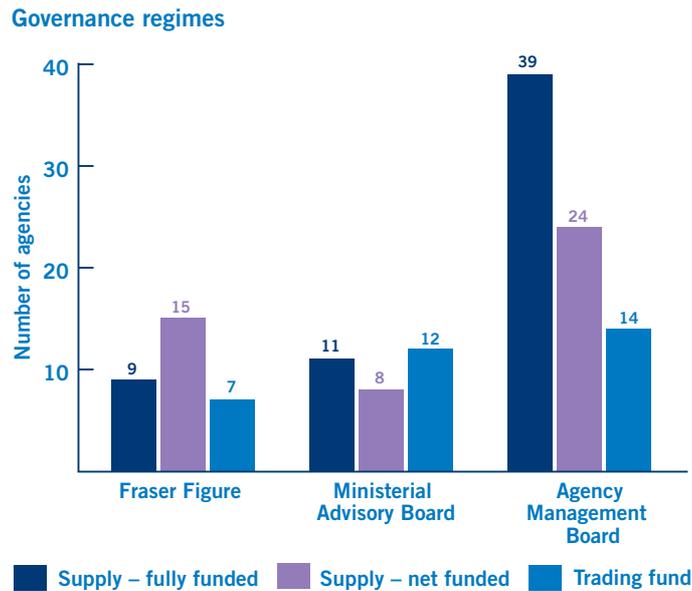
Comparable targets for 1999/2000 against outturns in 1998/99



Agency questionnaire results

7. We sent questionnaires to agency chief executives and 86 responded. The questionnaires sought factual information on staff numbers, expenditure, typology (public-facing, internal-facing, regulatory or research), funding regime and governance structure. We also asked about improvements in service delivery since the agency launch (and in particular about customer focus); and freedoms and delegations.

8. The following diagrams are drawn up on the basis of the 86 responses (although not all chief executives answered every question).



Based on 85 questionnaire responses

Governance

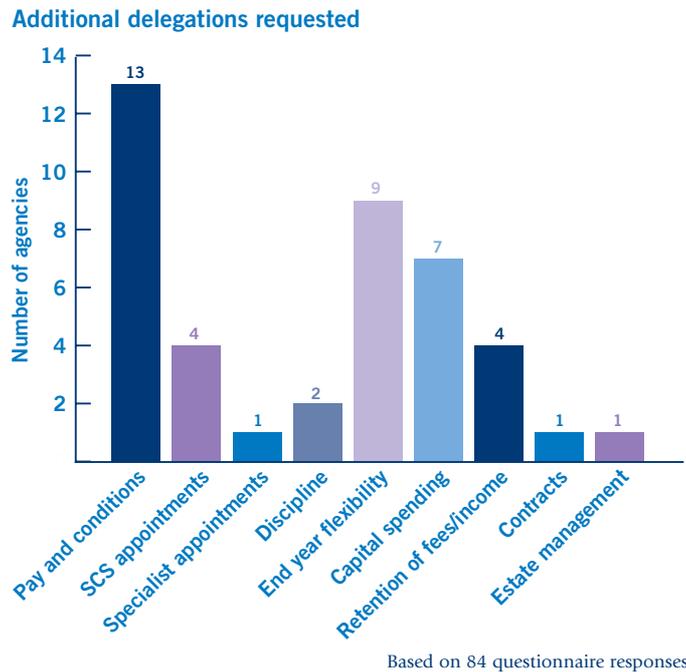
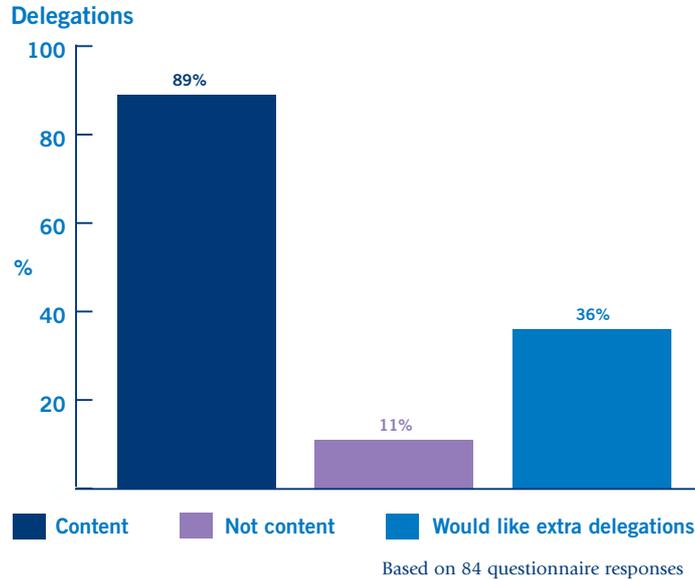
9. The responses showed that out of 85 agencies:

- 31 had Fraser Figures;
- 31 had Ministerial Advisory Boards (MABs);
- 16 had both a Fraser Figure and an MAB; and
- of the 30 public-facing agencies, 16 had a Fraser Figure, 11 had an MAB, eight had both.

10. Surprisingly, not all agencies acknowledged that they had a management board.

Freedom and delegations

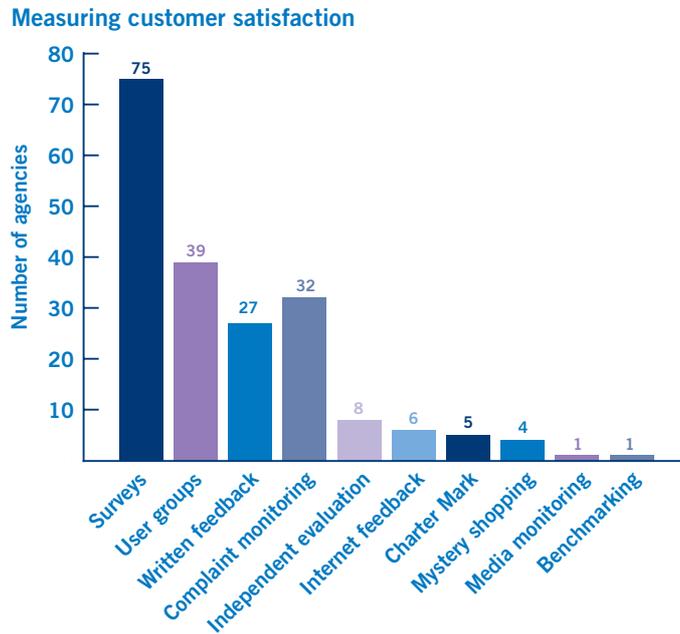
11. Out of the 84 agencies that responded to these particular questions, 89 per cent were content with the delegations they had and most understood why further ones were difficult for departments to give. However, 36 per cent specified extra freedoms which they felt would improve their ability to deliver services effectively.



12. When we asked agencies what delegation they would prefer not to have, only one was mentioned – pay. This was considered by a few of the smaller agencies to cause a disproportionate amount of effort compared with benefits received.

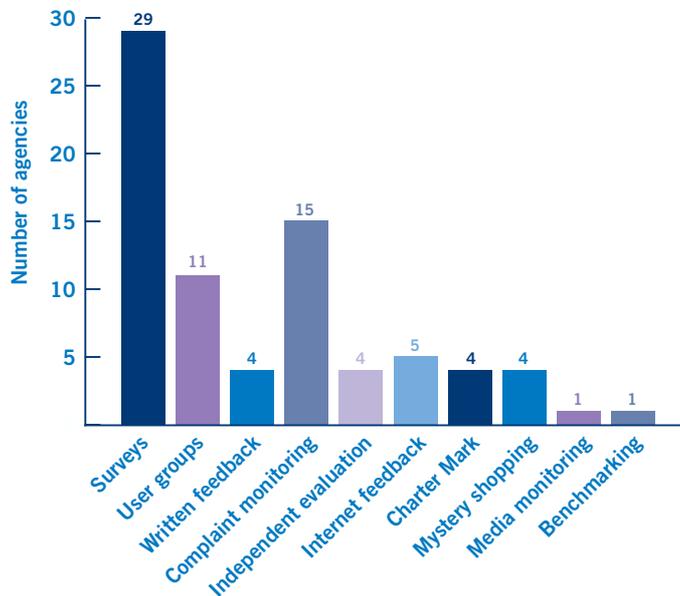
Measuring customer satisfaction

13. Responses showed that external-facing agencies are beginning to use new and imaginative ways of gaining information (e.g. Internet, mystery shopping), whereas internal customer agencies are still more reliant on traditional methods (e.g. surveys).



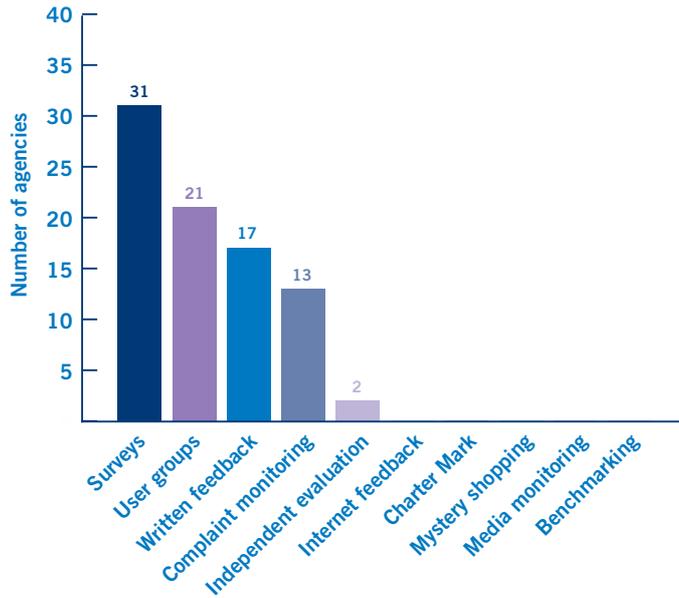
Based on 85 questionnaire responses

Measuring customer satisfaction – public-facing agencies



Based on 30 questionnaire responses

Measuring customer satisfaction – agencies with internal customers

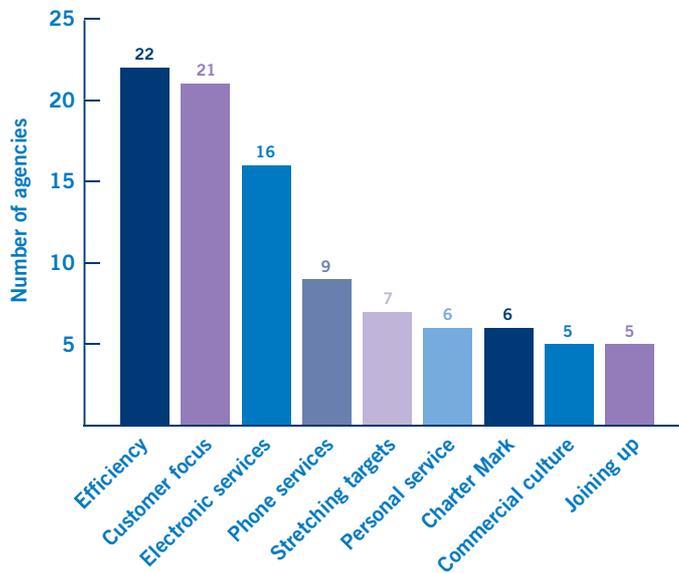


Based on 39 questionnaire responses

Service delivery

14. When asked what major improvements they had seen since agency status, most agencies gave examples relating to their business rather than general success criteria. However, the public-facing agencies answered in ways which could be categorised as below.

Major improvements since becoming an agency – public-facing agencies



Based on 29 questionnaire responses

Annex D – Summary of previous publications

1. Sir Robin Ibbs's report *Improving Management in Government* (February 1988) recommended that 'executive agencies' should be established to carry out the executive functions of government within a policy and resources framework set by a department.
2. The *Treasury and Civil Service Committee: 8th Report: Session 1987–88* (July 1988). On the Government's acceptance of the main recommendations of the Ibbs Report, a sub-committee was set up to inquire into the 'Next Steps' initiative. The committee recommended that agencies needed people with the right skills and experience and the ability and incentive to achieve if management in government was to be better and more efficient and the quality of service was to be improved.
3. The *Government Reply To 8th Report from the Treasury and Civil Service Select Committee, Session 1987–88: Civil Service Management – The Next Steps* (November 1988) was positive and upbeat. The Government planned to do nearly everything recommended by the select committee in some way or another and certainly to take account of everything it said.
4. *38th report: Committee of Public Accounts, Session 1988–89* (October 1989). One of its main conclusions was that the early-demonstrated commitment on the part of parent and central departments to the thrust of the initiative augured well for the initiative's success, but that much would depend on how departments' relationships with agencies evolved.
5. *The Financing and Accountability of Next Steps Agencies: White Paper: HMT and Privy Council Office* (December 1989) set out the financing and accountability regime of Next Steps executive agencies. It was published in association with the Government Trading Bill, which proposed powers to create trading funds to finance central government activities.
6. The *Treasury And Civil Service Committee: 8th Report: Session 1989–90* (July 1990) reaffirmed the committee's commitment to regular monitoring of the initiative, particularly the development of the largest executive agencies. The key message was that in setting targets for agency performance, the emphasis should be on *outputs*: the performance of any operation should be measured by how well it delivered the goods and the extent to which it met the needs of the consumers for whom its services were provided.
7. Sir Angus Fraser's report *Making the Most of Next Steps* (May 1991) recognised that the relationship which developed between an agency and its sponsor department should reflect the particular job to be done. The report identified good practice that could be adapted by each department to its own particular circumstances. There was a strong conviction that there were areas in which more progress could be achieved: getting the context right; empowering the chief executive; re-appraising the role, organisation and size of departments (including the role of the 'Fraser Figure').
8. *Treasury And Civil Service Committee: 7th Report* (July 1991). Its main recommendations centred on performance management and the setting and publishing of key targets. It concluded that substantial progress had been made since the previous report.
9. Sylvie Trosa's report *Next Steps: Moving On* (February 1994) specified the role of the 'Fraser Figure' and Ministerial Advisory Boards, clarified accountability between chief executives, departments and Ministers, suggested improvements to the target-setting process and reassessed the role of central departments.

10. Andrew Massey's report *After Next Steps* (January 1995) explored the relationship between agency chief executives and Ministers and the respective role of the sponsor department and agencies in the policy process. It also touched on experience of market-testing and prior options.
11. *The Strategic Management of Agencies – Models for Management: Cabinet Office/Price Waterhouse* (September 1995) examined aspects of strategic management of agencies, identifying where the relationship between departments and agencies was working well and where it could be improved.
12. *Objective Setting and Monitoring in Executive Non-Departmental Public Bodies: Cabinet Office Efficiency Unit* (August 1996) made recommendations on best practice in objective-setting and monitoring for executive non-departmental public bodies (NDPBs). It identified important features of best practice as: greater personal involvement by Ministers; greater clarity and prioritisation of targets, together with more emphasis on quantitative measures and increased stretch; and the need for the department–NDPB relationship to be founded on a partnership basis.
13. *Draft Resolution on Ministerial Accountability from the Public Service Committee's Report on Ministerial Accountability and Responsibility, HC (1995–96)* (February 1997). Ministers had a duty to account to Parliament for the policies, decisions and actions of their departments and agencies. The House would regard breaches by them of the obligation described above as particularly serious.
14. *Selling Government Services into Wider Markets: Policy and Guidance Note: Enterprise And Growth Unit: HMT* (July 1998) set out government policy for selling services into wider markets. Revised policy included: automatic right to retain the benefit of receipts generated by sales into wider markets; ability to use receipts to offset running cost expenditure; activity financed from within existing cash and running cost limits; receipts subject to annuality arrangements.
15. *Next Steps Agencies: Guidance on Annual Reports: Cabinet Office Guidance* (October 1998) provided guidance on coverage and contents of agency annual reports following the introduction of resource accounting and other emerging policy initiatives. A mixture of best practice and mandatory action, it applied to all agencies, both on-vote and trading funds. A set format was laid down for presenting performance information against key ministerial targets and milestones.
16. *Public Bodies: Proposals for change: Scottish Executive* (June 2001). A detailed case-by-case review of public bodies (around 180) in Scotland. Each body was tested against a set of principles. Outcomes: 70 public bodies had a clear continuing role to play; 52 bodies would be abolished; 61 bodies would be subject to ongoing fundamental review by Scottish Executive departments.

Annex E – Review methodology

1. The terms of reference for the review, as announced by Mr Ian McCartney MP, Minister of State in the Cabinet Office, in a parliamentary reply of 7 March 2001, are as follows:

- what versions of the agency model have been most successful and least, and in what context, focusing on the output and services delivered by organisations, and taking into account other models of service delivery;
- how agency objectives and targets can best be aligned with PSA and SDA objectives and targets and given the right degree of stretch;
- what degree of control from parent departments and the centre and what degree of freedom to manage are appropriate;
- how appropriate the current level and scope of central scrutiny is, including quinquennial reviews, better quality services reviews and PSA/SDA monitoring;
- how joined-up service delivery can best be promoted via the agency model;
- how service delivery and policy can best be integrated to ensure that policy is properly informed by practicalities;
- how to ensure that agencies have in place appropriate corporate governance, including the roles of ministerial advisory boards and 'Fraser Figures';
- how best to secure transparency and thoroughness in reporting on agency matters, including performance to the public.

2. The review was tackled in three main ways. First, through analysis of previous studies of agencies, agencies' annual reports and other publications that summarise plans, targets and performance, and a questionnaire sent to all agencies and departments.

3. Second, face-to-face discussions were held with five Ministers, over 50 chief executives from England, Wales, Scotland and Northern Ireland, 13 Permanent Secretaries and over 25 departmental officials closely involved in agency matters. Others, for example academics and the Council of Civil Service Unions and local trade union representatives and staff, kindly cooperated in giving their extensive knowledge of agencies. In total some 125 meetings, interviews and visits to frontline offices were conducted by the team (see Annex F). In addition, a small seminar was led by Lord Butler of Brockwell at the University of Oxford.

4. Third, through a series of case studies designed to throw light onto the eight key issues identified for the review in the terms of reference.

5. In addition to face-to-face meetings and correspondence, chief executives of agencies and NDPBs contributed to the review at their conference in Manchester on 30 October 2001. Two seminars, designed to contribute to the emerging findings of the review, were held in January 2002. These were attended by Permanent Secretaries, departmental representatives, 'Fraser Figures' and agency chief executives and senior staff. The draft report was discussed by the Civil Service Management Board strategy sub-group in February 2002 and at the chief executives' conference on 14 March 2002.

6. An advisory committee chaired by Pam Alexander and drawn from agencies, departments, an NDPB, the National Audit Office, the Public Services Productivity Panel and a local authority supported the review, and we are most grateful for the valuable contributions of the individuals listed below.

Advisory Committee

Dr Catherine Bell	Department of Trade and Industry
Keith Burgess	QA plc and the Public Services Productivity Panel
Peter Collis	HM Land Registry
Dr Stephen Hickey	Department for Work and Pensions
Dr David Jefferys	Medical Devices Agency
Steve Jones	Wigan Metropolitan Borough Council
Vanessa Lawrence	Ordnance Survey
Ian Magee	Court Service
Oona Muirhead CBE	Ministry of Defence
Michael Whitehouse	National Audit Office
Baroness Young of Scone	Environment Agency (NDPB)

7. The Agency Policy Review was jointly sponsored by and reports to Ministers in the Cabinet Office and the Treasury. Its Steering Group comprised:

Steering Group

Pam Alexander	Agency Policy Review Team
Sally Hinkley	Cabinet Office (Civil Service Corporate Management and Reform)
Adam Sharples	HM Treasury
Wendy Thomson	Cabinet Office (Office of Public Services Reform)

8. The Agency Policy Review Team was led by Pam Alexander, and was jointly sponsored by the Cabinet Office and the Treasury.

Review Team

Pam Alexander	Review Leader
Jack Charteris	Ministry of Defence
Steve Gillespie	HM Prison Service
Peter Hawthorne	Cabinet Office
Phillip Jones	Cabinet Office
Ilynn Masson	Cabinet Office
Ian Spurr	Cabinet Office
Maureen Parnell, followed by Jenny Kumah	Secretarial support

Annex F – Organisations and people interviewed by the review team

1. The review team during the course of the review interviewed senior managers and staff from the following organisations and others. We would like to express our gratitude to those who made time to contribute in this way at our consultation meetings and also to those who responded to the questionnaire.

2. We conducted over 125 individual interviews with Ministers and officials including:

- five Ministers;
- 13 Permanent Secretaries;
- 49 agency chief executives;
- four executive NDPB chief executives; and
- 25 senior managers in departments.

3. In addition the review was the main focus of discussions at the chief executives' autumn conference in Manchester in October 2001 and at the chief executives' annual conference in Edinburgh in March 2002.

4. We also held:

- a seminar in Northern Ireland for a group of agency chief executives and senior departmental officials;
- a seminar at the University of Oxford with interested academics and former Permanent Secretaries;
- a seminar for a group of Treasury officials responsible for spending departments; and
- two seminars for mixed groups of agency chief executives and senior departmental officials.

Our findings were also discussed at the strategy sub-committee of the Civil Service Management Board.

5. In addition to interviewing agency chief executives and senior officials, members of the team visited nine agencies and three departments and talked to a wide range of staff at all levels:

- Benefits Agency – Tees District
- Child Support Agency, Birkenhead
- Department for Work and Pensions, Human Resource Centre, Blackpool
- Driving and Vehicle Licensing Agency, Swansea
- Driver and Vehicle Licensing Northern Ireland, Coleraine
- Employment Service, Blackpool North

- Pilot Jobcentre, Clapham Junction
- Immigration and Nationality, Liverpool
- Inland Revenue, Accounts Office, Shipley
- Inland Revenue, Contributions Office, Newcastle
- Inland Revenue, Taxpayers Service Office, Leeds
- NHS Pensions Agency, Fleetwood
- National Savings, London
- National Savings, Durham
- Service Children's Education, Germany

6. We also interviewed the following individuals and groups.

Former senior civil servants closely involved in setting up agencies:

- Lord Butler of Brockwell
- Sir Robin Ibbs
- Sir Peter Kemp
- Sir Robin Mountfield
- Sir Michael Bichard

Other public sector organisations:

- Audit Commission
- National Audit Office
- West Yorkshire Metropolitan Ambulance Service
- Wigan Metropolitan Borough Council

Private companies:

- Unilever plc
- John Lewis plc
- John Lewis, Cheadle Branch
- Sainsbury's, Muswell Hill store

Trades unions:

- Council of Civil Service Unions
- Unions representing staff in the Department of Health
- Local representatives from Civil Service unions in the North-East

Academics and consultants:

- Professor Vernon Bogdanor
- Professor Peter Hennessey
- Professor Christopher Pollit
- Professor Alan Suggett
- Professor Colin Talbot
- Andrew Jackson (Stanton Marris)
- Stephen Taylor (Stanton Marris)
- Lynn McGregor (Convivium)

Others:

- Anna Bradley (National Consumer Council)
- Teresa Perchard (National Association of Citizens Advice Bureaux)

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