

# Reinventing Government in Britain

## The Performance of Next Step Agencies

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Researched and written by

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**CENTRE *for* PUBLIC SERVICES**

**Research • Strategy • Planning • Training**

1 Sidney Street Sheffield S1 4RG Tel: 0114 2726683 Fax 2727066

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# Summary of key issues and recommendations

*The US Government is planning to transform federal departments to Performance Based Organisations, modelled on the British Government's executive agencies. This report examines the performance, management and accountability of agencies and examines implications of copying this model in the USA.*

- The Conservative Government had used agency performance measures to show how successful the agency model has been in providing better services more efficiently. But these measures are often selective, superficial and provide little concrete evidence to support the claimed advantages of the agency model.
- The Conservative Government did not carry out a comprehensive study of the agency model. The Efficiency Unit and the National Audit Office have investigated only certain aspects of agencies and yet there is no comprehensive analysis to prove the 'success' of agencies.
- There have been many important improvements in the quality of services, more comprehensive planning of services and the availability of public information about services and government departments. Agencies are responsible for only **part** of these improvements. The problem is in identifying and quantifying how and why and at what cost these services have changed.
- The cost of running government agencies and departments has declined since 1990 but this is a small decrease when privatisation, abolition and transfer of services is taken into account. Efficiency savings are so broadly based and so vaguely defined (costs not identified, unaudited figures, assumption of recurring annual savings) that they are virtually meaningless. It is impossible to identify genuine improvements in managerial and service efficiency.
- There is much greater emphasis on strategic and business planning. However, this has adopted commercial and business values and practices. There is an urgent need for public service planning based on public services principles.
- The attempt to separate policy and operational roles remains a major issue in Government departments in Britain. Policy and operational issues cannot be fully separated and the extent to which this is feasible and/or desirable is questionable.
- Agencies have only had management control over pay and conditions of work since April 1996. Any claims of successful managerial reform should be discounted until adequate time has elapsed for an objective evaluation.
- There are other variations of the agency model ranging from more fully integrating 'agencies' as management units within departments, recognising that separation of policy and operations is unacceptable, to moving agencies into separate stand-alone organisations or commissions with clear lines of accountability.
- The agency model has facilitated the implementation of the Government's market testing programme.
- The bulk of efficiency savings originated from market testing, not from the agency model.
- Claims of 20% - 25% savings from market testing and contracting out have been proved to be false by the Government's own Efficiency Unit. In addition independent research has shown that there were no savings but rather public costs of between 10% - 16%.
- The Government's Private Finance Initiative has made the British agency model an easy vehicle for the government to privatise services since they are already packaged with separate accounts, personnel and support services.
- Performance measures must cover a far wider range of measures including the effectiveness, equality and efficiency of service delivery, employment and environmental policies, and adopt social and economic auditing.
- It is very important to establish comprehensive criteria for assessing performance based organisations at the outset. Valuable resources need to be directed at improving the

- quality of services rather than the performance of indicators.
- The transition from a hierarchical Civil Service to the agency model has been expensive and transaction costs should ideally be met fully, or at least partially, funded by the Government. This would help to avoid agencies being pre-occupied with the need to fund these costs from efficiency measures which dominate management agendas at the expense of implementing best practice.
- The British agency model, accompanied by market testing and privatisation, is imposing 'management or government by contract' across government departments. The full political, managerial and cost consequences of this policy have not been fully assessed or considered. This approach also requires new skills and practices for which there has been only limited recognition.
- Management by contract is likely to reduce the ability of the Civil Service to respond to policy developments.
- Organisational issues dominate the agency debate. Management strategies, policies and working practices must also be an integral part of the approach.
- Once a Government embarks on the agency model, the programme gains momentum. It will be difficult to stop, let alone reverse, because of questions of cost and demands for a period of stability and consolidation rather than further radical reform.
- There should be certain preconditions which should include:
  - *no market testing*
  - *no threat of privatisation*
  - *comprehensive training and career development program*
- Staff and trade unions have not been involved in the formation or running of performance based organisations in Britain. Genuine worker and trade union involvement is essential in order to maximise the effectiveness of the organisation, develop proper performance indicators, improve service planning, draw up service improvement proposals and develop quality management systems.

### Transferring the agency model to the USA

Before giving a commitment or support to the agency model, staff, trade unions, Congress and the public should have clear and unambiguous, quantifiable answers to a number of questions.

1. What can be specifically achieved by agencies which cannot be achieved by other measures taken within departments?
2. What form of monitoring and independent assessment of agencies will be carried out to determine costs and benefits?
3. What action is planned to maintain and improve equal opportunities and affirmative action policies to counter the fragmentation into separate agencies?
4. Will there be a full assessment of costs and benefits, including transaction costs and audit?
5. Where do agencies fit into the National Performance Review and how will they specifically contribute to meeting its objectives?
6. Management and operational practices are just as important as organisational arrangements; how will these be developed within agencies?
7. What policies will be developed to prevent the fragmentation of the Federal Government into separate, increasingly commercialised units which will prepare the ground for privatisation?
8. What measures will be taken to prevent an agency from being unduly open to pressure from interest groups or to 'capture' by private firms. This has not been a major issue to-date in Britain but is likely to be of concern in the US.
9. How will management engage workers and their unions in the planning of agencies.

# Introduction

The US Government is planning to adopt the British approach to reinventing government by using the term Performance Based Organisations (agencies). This will have major implications for Federal departments, services and staff.

**“First, we are turning some of today’s agencies into smaller, sleeker organisations that won’t look like government at all. They will be like private companies, with a CEO on contract to cut costs, and a free hand when it comes to the remaining government rules about procurement, personnel, and the like. The British government did this a few years ago, and costs have been dropping steadily. We’ll borrow their good idea.”**

(Al Gore, ‘The Best Kept Secrets in Government’, National Performance Review, p118 September 1996.)

A background paper for Al Gore’s speech, ‘Reinvention’s Next Steps’ (4 March 1996) included the following statement on Performance-Based Organisations:

**“The proposal to create performance-based organisations in the federal government is based on an approach used successfully in Great Britain to manage PBOs more efficiently and effectively in a period of declining resources. This approach allowed British PBOs to reduce their operating costs an average of about 5% a year over the past eight years, while continuing to maintain or improve services to the public.”**

A number of points need to be clarified from the outset.

Firstly, agencies in Britain are not private companies. Although some agencies have been privatised, the bulk of them remain within central government.

Secondly, agencies have not had a free hand on procurement, pay and personnel. The Government imposed a market testing programme on agencies and pay and grading responsibilities were only delegated to agencies from April 1996.

Thirdly, average running costs have not reduced by 5% per annum. Identifying changes in costs specifically connected to the agency model of government is very complex. Government running costs fell 12% in real terms over a five year period between 1989-90 and 1993-94 but this was primarily achieved by centrally imposed spending controls, pay restraint, privatisation and contracting out throughout Government. Reductions cannot be attributed solely to the formation of agencies (further details in Part 2).

Finally, it is not unreasonable, at the end of the twentieth century to expect the quality of services to be maintained or improved over the eight year period since agencies were first formed. The application of new information and communications technology has improved many services. Many of the service improvements in agencies cannot simply be attributed to the agency model.

The sharing of experience and the transfer of ideas between countries is very important. However, this should be done with care and vigorous research. The sequel to the book *Reinventing Government* fails on both these counts. It fully endorses the agency model “because it combines three strategies – core, consequences and control – it is a very powerful meta base” for reinventing government (Osborne and Plastrik, *Banishing Bureaucracy*, 1997). However, the authors analysis of agency’s in Britain is superficial, with a limited perspective and devoid of any evidence other than that from the Conservative Government. The claims that agencies are “directly accountable to their customers” are patently false and the savings claims are out of date.

## Objectives

This study has two main objectives:

- 1. To analyse the experience and impact of the establishment of agencies in Government departments in Britain.*
- 2. To determine the main lessons from the development of the agency model so that any similar developments in the US can be better informed.*

There remains a dearth of empirical data on the costs and benefits of agencies. The Government claims they are a 'success' but there is little concrete evidence to support it. The Government's Efficiency Unit has carried out certain studies but, as we show in this report, they have not been comprehensive. The National Audit Office has carried out studies on particular topics for individual agencies but these have not been published.

There has been some analysis of the role of agencies in critiques of new public management but there have been only isolated studies into agency performance (and they have often been published in obscure technical journals).

The Council of Civil Service Unions and individual unions such as the Public Services, Tax and Commerce Union (PTC), Civil and Public Services Association (CPSA) and the Institution of Professionals, Managers and Specialists (IPMS) have submitted evidence to Parliamentary Select Committees and organised campaigns against privatisation. However, their resources have been fully stretched responding to the wide array of issues including market testing, national pay claims and equal opportunities in addition to all the efficiency and restructuring issues arising from the formation of the 125 agencies. Hence they have not carried out any comprehensive evaluation of the agency programme.

Agencies are required to publish their Framework Documents, Annual Reports and Accounts together with the Corporate and Business Plans. However, Britain does not yet have a Freedom of Information Act and whilst information about agency performance is available both from individual agencies and through the annual Next Steps and Efficiency Plan reviews, it is 'soft' information for public consumption. Cutting through the gloss is a substantial task in itself.

## The origins of the report

This study was carried out by the Centre for Public Services with the support of the AFL-CIO in Washington DC (the US equivalent to Britain's Trade Union Congress). The US Government's National Performance Review plans to establish similar agencies or what they term Performance Based Organisations (PBOs).

This report has also been published in the US in May 1997 and distributed widely within Congress, Government departments, other public bodies and the trade unions.

## Lessons for Britain

Although written for a US audience, the lessons of Next Steps Agencies need to be closely examined in Britain. The study has important lessons for local government. The proposed abolition of Compulsory Competitive Tendering and market testing raises major questions about what should replace tendering and what elements of the existing system should be retained. Most proposals currently being debated include placing greater emphasis on performance measures, annual efficiency plans and business planning which are important parts of the agency model.

## Overview of the report

Part 1 explains the policy context and the process by which agencies have been established in Britain. Part 2 examines the management and accountability of agencies, in particular the attempt to separate policy and operational issues and some of the key internal

management practices within agencies. The performance of agencies is the subject of Part 3. This section examines the overall claims of improved performance and highlights the experience in the Prison Service Agency in particular. British agencies have been required to implement the Government's competitive tendering and privatisation policies which is assessed in detail in Part 4. The impact on jobs, employment policies and the civil service trade unions is examined in Part 5.

## Differences between Britain and USA

There are some important differences in the two systems of running Government departments in Britain and the USA which need to be acknowledged.

Firstly, US government departments and organisations nationally, regionally and locally are effectively run by political appointees.

Secondly, US services are more highly structured around a multitude of specific programmes and budgets.

Thirdly, there is greater oversight and investigation in the US government system compared with Britain, partly because of the two-year election cycle and partly through Congress's more investigative approach.

Fourthly, the British Government has imposed privatisation and market testing policies across the public sector which are not on the same scale or intensity in the US.

## Terms

There are some differences in terminology between Britain and the US. We have used the following terms:

**Executive or Next Steps Agencies** are broadly the same as **Performance Based Organisations**. An agency is an organisation set up by a Government department with its own budget, staff and chief executive. It has the ability to plan, organise and manage how it will meet Ministerially agreed service delivery and performance objectives. Some agencies have been privatised.

**Privatisation**: this includes the sale of assets and services to the private sector by trade sales and management and employment buy-outs. It also includes contracting out service delivery to a private contractor, with or without the submission of an in-house bid.

**Market testing** and (compulsory) **competitive tendering** are the same process. Market testing is the term used in central government and the National Health Service and has been a management requirement and Government policy. Competitive tendering has been imposed in local government through legislation. Bids are sought from private contractors and/or social organisations. In most cases the in-house service also submits a bid.

The **Private Finance Initiative** is the same model as **public-private partnerships** in which the private sector finances, designs, builds and operates facilities on behalf of the Government.

## Part 1

# Next Steps Agencies in Britain

### Introduction

It is important to describe the particular form of agency which has been developed in Britain and how they operate in the context of government policy generally. There have also been a number of policy changes which have affected the operation of agencies. This chapter is divided into five main sections:

- ★ The agency model in Britain
- ★ The process of establishing agencies
- ★ Key developments since 1988
- ★ The policy context

The basic characteristics of the British agency model are:

- ★ Next Step Agencies will “....generally be within the Civil Service” and staff will continue to be civil servants.
- ★ Agencies are headed by a chief executive, accountable to the relevant Minister, and responsible for managing the organisations within policy and resource constraints. The Permanent Secretary remains head of the Government Department and principal adviser to the Minister on issues affecting the department.
- ★ Ministers are responsible for overall policies and the assessment of performance. They also reconcile the Framework Document for each agency, the key objectives and targets, and approve the agency's corporate and business plan, appoint the chief executive, monitor agency performance and determine the allocation of resources.
- ★ agency management should be free to manage and any “....intervention, planned or unplanned, in the day-to-day management of agencies should be exceptional and positively justified in each case.” There is no mention of agency intervention in departmental policy formulation or implementation.

The Government does not propose to establish agencies in the policy areas in core departments but will extend Next Steps principles throughout the Civil Service “....including maximum clarity about objectives and targets, delegation of management responsibility and a clear focus on outputs and outcomes.” (*Civil Service: Taking Forward Continuity and Change*, 1995)

### The Next Steps proposal

The original report proposing the establishment of agencies, “Improving Management in Government: The Next Steps” (1988) was 30 pages long containing little examination of alternatives. This is consistent with other government policies in the 1980s, such as privatisation and market testing, which were rooted in dogma and devoid of policy and public costs analysis.

The Next Steps report, prepared by the Government's Efficiency Unit, investigated the structure and management of the Civil Service and recommended the establishment of agencies. It found that there were a number of obstacles to improving management practices:

- Insufficient focus on the delivery of services (as opposed to policy and ministerial support), even though 95% of civil servants are involved in service delivery;
- A shortage of management skills and experience of working in service delivery functions among senior civil servants;



- Greater diversity and complexity of work in many departments, together with demands from Parliament, the media and the public for more information, have contributed to ministerial overload;
- Short term political priorities tended to squeeze out long-term planning;
- Too much emphasis on spending money and not enough on getting results;
- Relatively few external pressures demanding improvement in performance;
- The Civil Service, with 600,000 staff, is too big and too diverse to manage as a single organisation.

A Parliamentary Select Committee, (the Treasury and Civil Service Committee) subsequently inquired into the Next Steps proposals. A number of Ministers, senior civil servants and advisers gave evidence. The Committee concluded that “....as a document upon which to build a new Civil Service for the next century, the Next Steps report has shortcomings.....some of its conclusions and recommendations are little more than vague generalities and restatements of the conclusions of previous reports”. They hoped that the obstacles to the development of accountable management could be overcome. “Agencies may be the most appropriate instrument of attaining vital improvements in efficiency and effectiveness but the limited progress made in that direction so far does not enable clear conclusions to be drawn.”

The Committee was “slightly confused” by the relationship between the Next Steps policy and the Government’s privatisation policy. Sir Peter Middleton, Permanent Secretary to the Treasury, gave evidence that “....agencies might be a step to privatisation”. However, the Minister for the Civil Service told the Committee that the two policies were distinct from one another: “If the Secretary of State regards a particular operation as being more suitable for privatisation then that will happen – that will be the priority. But if it is not suitable for that, he may take the view that it is a suitable operation for an agency (agency) arrangement.” (Treasury and Civil Service Committee, Eighth Report, Session 1987-88, HMSO) Eight years later, these reservations and comments have a particular relevance, as this report highlights.

## The range and scope of agencies

Whilst there is a wide diversity of agencies, there are four broad groups:

**Main service operations:** agencies which provide the core services of a department such as the Benefits Agency in the Department of Social Security and the Employment Service in the Department of Education and Employment.

**Regulatory:** agencies which provide statutory or regulatory functions such as issuing driving licences, passports, vehicle testing and company registration.

**Services to departments:** agencies which provide support or specialist services to departments such as research bodies. Although some agencies provide services to other agencies and different departments, no agency has been established which is specifically designed to cover the core responsibilities or activities of more than one department.

**Self-contained specific services:** HMSO, the Government’s printing services and bookshop and the Civil Service and Fire Service Colleges, are examples of specific stand-alone agencies. Many of these were already separate and distinct operating units before the imposition of agencies.

## The size of agencies

Five agencies, the Benefits Agency, the Employment Service, Inland Revenue (tax collection), HM Customs & Excise and the Prison Service account for over 222,000 staff or 54% of the total agency workforce (see Appendix 1). All those agencies provide a national service from local offices and centres. Two thirds of all agencies have under one thousand staff. The size range of agencies is shown in Table 1.1.

Table 1. 1: The range of agencies by size

No of staff	No of agencies
Less than 100	9
100 - 499	47
500 - 999	24
1,000 - 1,999	17
2,000 - 4,999	13
5,000 - 9,999	8
10,000 - 19,999	2
20,000 - 29,999	1
30,000 - 39,999	2
40,000 - 49,999	0
50,000 - 59,999	1
60,000 - 69,999	0
70,000 - 79,999	1
Total	125

Source: Next Steps Briefing Note, Cabinet Office, October 1996.

Includes executive offices in Inland Revenue and HM Customs & Excise as constituting two overall agencies

Table 1.2: Percentage Government department staff in agencies

Department	% of staff in agencies
Social Security	97
Home Office	77
Transport	82
Trade & Industry	50
Cabinet Office	37
Defence	28

Source: Civil Service Statistics 1995, HMSO, 1995.

The number of agencies currently hovers around the 125 mark. While new agencies have been established, a number of agency's have been privatised at the same time. They currently employ 400,000 staff, of whom 94% are civil servants. In October 1996 there were 32 candidates for agency status employing over thirty six thousand staff (see Table 1.3).

Table 1.3: Agency Status at October 1996

Status	No of Agencies	No of Staff*	No of Civil Servants
Executive Agencies (agency)	125	325,845	300,505
Departments operating on agency basis			
H.M.Customs & Excise (23 executive offices)	1	22,945	22,945
Inland Revenue (27 executive offices)	1	51,660	51,660
Total	127	400,450	375,110
Candidates for agency Status	32	36,875	30,030

Source: Next Steps Briefing Note, Cabinet Office, October 1996.

★ Includes some military personnel

Table 1. 4: **Establishment of Next Steps Agencies**

	1988	1989	1990	1991	1992	1993	1994	1995	1996
No	3	4	21	17	16	16	13	12	24
Staff	5,510	775	67,225	95,880	7,670	69,560	15,220	39,830	39,265

Source: Next Steps Briefing Note, Cabinet Office, 1996.

## Agency mergers

Three agencies in the Ministry of Defence were recently merged. The Defence Research Agency, with 8,770 staff, was formed in 1991 and provides research-based scientific and technical advice for the Ministry's equipment procurement programme. It was recently merged with two smaller agencies, the Chemical and Biological Defence Establishment and the Defence Operational Analysis Centre to form the Defence Evaluation and Research Agency. Other agency mergers have included the Central Statistical Office, an existing agency, merging with the Office of Population Census and Surveys, being considered for agency status, to form the Office for National Statistics and employing 3,000 staff.

## The process of establishing agencies

In 1988 Next Steps project team was formed in the Office of the Minister for the Civil Service which was subsequently assimilated into the Office of Public Service. It was staffed by civil servants on secondment from other departments and headed by a senior civil servant, Sir Peter Kemp. They encouraged, advised and supported departments to set up agencies. A agency team would involve departmental staff together with Treasury and Next Steps project team members. The first stage involved a review of the functions considered for agency status which examined the prior options questions (1-5) noted below. For example, could the work be privatised or market tested? A Framework Document was drawn up if continued government provision of the service was the only available option.

## Framework Documents

The Framework Document sets out the relationship and responsibilities of the agency and the department. It provides the operational framework. Each document is published and they are more comprehensive than the earlier versions. They normally contain the following sections:

- ★ Status and function of the agency
- ★ Aims and objectives
- ★ A list of performance measures
- ★ Role and accountability of the Secretary of State, Permanent Secretary, Chief Executive, and Advisory Board
- ★ Planning and finance including the requirement for corporate and business plans and auditing
- ★ Personnel management including delegation of pay and conditions, industrial relations framework and other employment matters
- ★ Review and developments including requirement for further reviews of the Framework Document
- ★ Support services to be supplied by the department.

## Agency Reviews

The prior options analysis forms an important part of the review. The Efficiency Unit guidance on reviews sets out the options to be examined:

1. Abolition: must the public sector be responsible for the function, can it be abolished or dispersed within government with no need for a dedicated provider?
2. Privatisation: must the public sector provide the function itself, if not, what form of privatisation is feasible?
3. Strategic contracting out ie competitive tendering without an in-house bid.
4. Market testing ie competitive tendering with in-house bids.
5. Rationalisation or merger with other agencies.

Each agency originally had to renew its agreement with the department every three years although this has now been extended to five years. The purpose of the review is to evaluate the performance of the agency, reappraise the prior options considered before the agency was created in the light of developments since that time, and to make recommendations for the future development of the agency, particularly plans for further efficiency improvements.

### **Analysis of review completed to-date**

By December 1995, 27 reviews had been completed and a further 40 were in progress. A further 6 were due to commence during 1996. It is interesting to note that all but one of the 12 agencies privatised in 1995 and 1996 were the subject of agency reviews. The exception was the Teachers Pensions Agency where a review was not due, but the Minister announced its privatisation anyway.

### **Who carries out the reviews**

The Valuation Office's Next Steps Review established a steering group chaired by the Director General of Inland Revenue along with the Chief Executive, Director of Finance and Head of Planning of the Valuation Agency, Director of Local Government Finance Policy from the Department of the Environment (which works closely with the Agency), a member of the Tax Administration team at HM Treasury, the Director of the Savings & Investment Division of Inland Revenue, and a partner in management consultants Price Waterhouse. Additional work was carried out by a small team of Valuation Office and Inland Revenue staff. Various local authorities, professional bodies and private companies contributed to the review.

## **The policy context**

### **Reform initiatives in the 1970s and 1980s**

The concept of agencies is not a new one. In 1968 the Fulton Committee's Report on the Civil Service recommended the setting up of accountable units of management within departments. Although some recommendations were implemented in the early 1970s there were few changes in the civil service under the 1974-79 Labour Government.

### **Efficiency studies**

An Efficiency Unit was established soon after the Thatcher Government took office in 1979. Headed by Sir Derek Raynor, the Unit carried out efficiency scrutinies in government departments with the intention of improving the efficiency of civil servants and reforming management practices.

### **Financial Management Initiative**

The Financial Management Initiative (FMI), commencing in 1982, focused on costs and defining individual accountability. It was intended to give managers more responsibility and control. Budget holders were given some scope for moving money between budget headings. It was supposed to help managers set clearer objectives but these often remained vague. The FMI focused on establishing cost centres and measuring performance but the drive for efficiency and cost savings came to dominate the process.

## Key Developments in the Agency model 1988-96

1988	<b>Agency model proposed and accepted</b>
1989	<b>First Agencies established</b>
1991	<b>Competing for Quality, Government Policy Paper Fraser Report: Relationships between Agencies and Departments</b>
1992	<b>Citizen's Charter first report</b>
1993	<b>Market Testing Guidance published</b>
1994	<b>Trosa Report: Relationships between Agencies and Departments</b>
1994	<b>Civil Service: Continuity &amp; Change, Policy Paper introduces annual Efficiency Plans</b>
1995	<b>Massey report: Relationship between Ministers and Agencies on policy implementation</b>
1995	<b>Civil Service: Taking Forward Continuity &amp; Change, Policy Paper</b>
1996	<b>Competing for Quality Policy Review: Savings halved and no quality improvement</b>

### Competing for Quality

The Government launched the Competing for Quality initiative in November 1991 which included extending competition throughout the public sector and introduced the Citizens Charter. It required government departments to prepare an annual programme of services, privatisation, strategic contracting out, market testing and internal restructuring. The Government published market testing guidance, launched a monthly contracts journal and many departments and agencies established central market testing units.

### The political context

The establishment of Executive Agencies has been implemented alongside other equally important policies:

- ★ the continuing tight control of running costs: total cash spending on civil service departments (excluding Ministry of Defence) will be maintained at the same level in 1997-98 as in 1993/94, implying a cut of 10% in real terms. Although some departments are allocated variations for specific policy initiatives, budgets are based on the assumption that pay and price increases will be met, or more than offset, by efficiency measures.
- ★ the increased use of market testing and privatisation as "....a key means of improving value for money".
- ★ delegation of management responsibility to, and within, departments and agencies. Hence the continuing programme setting up new agencies together with Efficiency Plans.
- ★ a Government commitment to cut the size of the Civil Service with the current focus to get the total below 500,000 employees. Much of the reduction has been achieved by contracting out so the reduction in the overall figure masks the fact that thousands of private contractor's staff are delivering services. Agency accounts should be required to provide details of private contract staff which, combined with the number of Civil Service staff, will give a full indication of staffing, productivity and performance in implementing equal opportunities policies.

The climate of financial control is a key mechanism to encourage the implementation of market testing.

### Quangos: another form of agency

The Government has also had a policy of creating Quasi-Autonomous Non-Governmental Organisations (Quangos) which are unelected bodies providing regulatory, advisory and executive functions. There are now 6,424 quangos in Britain, 45% more than when the Conservative Party came into power in 1979, employing about 70,000 staff and responsible for over £64bn, a third of central government expenditure. They include National Health Service Trusts which provide local health services, Training & Enterprise Councils, regulatory bodies for the privatised utilities, locally managed schools and a wide range of local and national bodies.

### Labour Party policy on Agencies

The Labour Party will not reverse the formation of Next Steps Agencies but it will introduce changes to make them more accountable and revise each agency's Framework Document with respect to the stated objectives. "Nobody in Government thought out how to make Agencies accountable to Parliament. It has created confusion" stated Giles Radice, Labour chairperson of the Public Services Select Committee (*Executive Agencies Quarterly*, Spring 1996). He continued: "I believe in useful reforms and targeted reforms, yes; but revolutionary change, no. Of course things should change, but what the Civil service needs now is a bit of consolidation, a bit of feeling that their job is important, and not much more than that. I do not see a Labour Government coming in starting a whole new series of reforms on the back of all the others. There are enough problems now, with the Civil Service almost breaking up."

### Trade union views

The Civil Service trade unions, both individually and collectively through the Council of Civil Service Unions (CSSU), have stated that they believe that the real motives of the Next Steps Initiative have been cutting costs, privatisation and the fragmentation of the Civil Service and consequent weakening of the trade unions.

### Lack of proper consultation

There have been few, if any, comprehensive and genuine attempts to involve staff and trade unions in the establishment or running of agencies. Civil service trade unions are informed about prior options reviews and efficiency studies and their "views are taken into account". They are advised and consulted on staffing matters but there is no debate or negotiation on the organisation or management of agencies. Attempts by a few agencies to include clauses in Framework Documents to negotiate any changes in departmental agreements were cut from the final documents. Framework Documents and Business Plans have not always been made available to the trade unions. Some have been kept secret because they were claimed to be 'commercially confidential' or only made available at a high price (for example the Resettlement Agency and CADW: Welsh Historical Monuments).

The establishment of the Court Services Agency is an example of poor consultation. The Lord Chancellor's Department set up an Agency Feasibility Review Team in 1992. Following a request for written submissions, the trade unions submitted a report in January 1993 although they were refused access to the feasibility report. Despite being assured that no decision had been made, an announcement was suddenly made in the House of Lords in May 1993 that the department would move to agency status in 1995.

Key guidance on 'Efficiency Plans' and 'The Strategic Management of Agencies' is completely devoid of any reference, let alone advice, on how to involve staff and trade unions. The Government is apparently afraid that staff and trade union participation will be used to delay or oppose their privatisation, tendering and private finance policies.

**The development of agencies will continue to be constrained and limited until staff and trade unions are fully involved in the process of establishing the organisation, the development of proper performance indicators, service plans, initiatives to improve service delivery, monitoring and the development of management and employment policies.**

## Executive agencies in other countries

A number of other countries have adopted the executive agency model in central government departments including Sweden, Holland, Denmark and New Zealand. Each has developed the model in different ways. We have summarised some of the main points in New Zealand and Sweden.

### New Zealand

The development of business units or agencies in New Zealand started with the State Sector Act 1988 which set out a new framework for the relationship between departments and Ministers including replacing the head of government departments with a chief executive on a contract basis. They were given responsibility for employment policy, including the hiring and firing of staff and a limited degree of pay delegation. The following year, the Public Finance Act introduced a client-contractor split, gave departments the financial responsibility for capital assets and introduced performance measures.

In New Zealand the policy-operational split is rigidly defined and hence contracting is widespread. Each department buys services from a wide range of business units, all of which have strict budgets and defined functions. Whilst the Government claims that staffing levels in government departments has declined dramatically, many are now working for contractors.

Agencies were reorganised according to their function - commercial, policy, regulatory and operational. During the 1984-90 period, fifteen departments, ministries and offices were either abolished, corporatised or privatised although several new departments and agencies had been formed in the same period. Kelsey concluded that "the plethora of small ministries and agencies tended to encourage defensive positioning in the policy-making process, making policy coordination more difficult and isolating policy from operational realities." (Kelsey, 1995). It should also be noted that the public sector policy changes, started under a Labour Government and continued by the National Party Government, were more far-reaching than in Britain and included major 'reforms' to try to destabilise the trade union movement.

A survey of 32 senior managers in government departments and agencies included a score card of change in which the reinvention of New Zealand government was assessed. (Stace and Norman, Victoria University of Wellington, 1995). They scored financial management, planning for outputs and new organisational structures between A and B. Significantly they found no consensus over of the separation of policy and service delivery and were unable to give it a rating. Three 'change areas' received scores ranging from B- to D. The use of shorter term employment contracts brought "greater emphasis to performance but may undermine staff loyalty and create a short-term focus". Managers reported that a 'significant mistrust' had developed between politicians and managers which is likely to affect the performance of agencies. Management of the change process was given a very low rating.

### Sweden

The original Next Steps Report cited the agency model adopted by the Swedish government in the 1980s. Agencies are more independent with Ministers having less power to intervene in their operation.

They are modelled on the view that 'politics and administration should be kept separate as far as possible' (Swedish Ministry of Finance, 1994). Chief executives are appointed by the Government, usually for a 6 year period, and must operate within a set of rules and instructions. There about 300 agencies linked to central government ranging in size from a few to several thousand employees.

Each agency must submit an annual report detailing its performance, financial statement and cost analysis. This report is used in the Government's budget process to allocate resources.

## Summary of key issues and recommendations

- Agencies have been implemented driving the imposition of tight budgetary constraints and the continual threat of privatisation.
- Staff and trade unions have not been involved in the formation or running of agencies in Britain. Genuine worker and trade union involvement is essential in order to maximise the effectiveness of the organisation, develop proper performance indicators, improve service planning, draw up service improvement proposals and develop quality management systems.
- Once a Government embarks on the agency model, the programme gains momentum. It is difficult to stop, let alone reverse, because of questions of cost and demands for a period of stability and consolidation rather than further radical reform.
- The blanket application of the agency model across all services and departments can lead to the marginalisation of more suitable and effective alternative organisational and management strategies. The imposition of one organisational model across multifaceted service departments and activities is not recommended.
- The Government has not carried out a comprehensive study of the agency model. The Efficiency Unit and the National Audit Office have investigated certain aspects of agencies but there is no comprehensive analysis to prove the 'success' of agencies.



## Part 2

# Management & accountability of Agencies

### Introduction

This chapter focuses on the management and accountability of agencies and the relationship between agencies and Government departments. It examines:

- \* Changes in Civil Service staffing
- \* Impact of agencies on departmental running costs
- \* The attempt to separate policy and operational issues
- \* Relationship between agencies and departments
- \* Role of chief executives
- \* Business or public service planning
- \* Financial accountability
- \* The new Efficiency Plans
- \* Loss of public service ethos

### Changes in Civil Service staffing

The longer term rise and fall in the Civil Service workforce, based on full and part-time jobs in both civil departments and defence, is shown in Table 2.1. The downward trend hides substantial increases in staffing in law and order, for example, a rise in the number of prison officers, and fluctuating staffing levels in the Employment Services Agency and Department of Social Security depending on unemployment levels.

Table 2.1: **Central Government workforce by headcount (thousands)**

Year	1961	1971	1981	1985	1993	1994	1995
Staffing levels	741	813	878	811	792	758	731

Source: Labour Market Trends, August 1996.

Between 1985-95 there was a 10% reduction in the total number of jobs in central government departments (see Table 2.2). Men suffered the bulk of job losses with a 15% decline compared to a 4% loss for women.

Table 2.2: **Change in Central Government staff 1985-95 by headcount (thousands)**

	Total No	Male Total	Full-time	Part-time	Female Total	Full-time	Part-time
1985	811	441	427	14	370	295	75
1995	731	375	373	2	356	286	70
Change	-80	-66	-54	-12	-14	-9	-5
% change	-10	-15	-13	-86	-4	-3	-7

Source: Labour Market Trends, August 1996.

The Government has been persistently attempting to get the total number of civil service staff below 500,000, which they have not yet achieved. Table 2.3 shows that at April 1996 there were 514,539 full and part-time civil servants plus over 20,000 casual staff which are not usually included in the overall total.

Table 2.3: **Staff of Central Government Departments** (Headcount, thousands)

	April 1994	April 1995	April 1996
<b>Permanent staff</b>			
Civil departments	418,060	400,754	402,910
Defence	122,240	116,139	111,629
Total	540,290	516,893	514,539
<b>Casual staff*</b>			
Civil departments	18,520	15,286	16,372
Defence	2,600	2,958	3,640
Total	21,210	18,244	20,012

Source: Civil Service Statistics, 1995 and 1996, Government Statistical Service.

\* Full-Time Equivalent: Casual staff engaged up to 12 months, but exceptionally up to 2 years.

There have been significant changes to Civil Service Staffing levels due to:

- Property Services Agency PSA Projects Division sold to Tarmac PLC  
- 3,400 staff in 1990
- PSA Building Management sold to 4 firms - 2,370 staff in 1993/94
- Meat Hygiene Service Executive established - 800 staff transfer from local authorities
- Privatisation of Agencies - 7,595 staff transferred (see Table 4.4)
- Market testing - 11,924 staff transferred to private contractors between April 1992 - March 1995. Most of these jobs have not disappeared and remain as a cost to agencies and departments via payments to private contractors.

At least 25,000 of the 80,000 job loss between 1985-95 was accounted for by privatisation and market testing. The total also includes an increase in staff in the regulated bodies set up to monitor the privatised utilities. For example, the Office of Water Services increased its staff from 83 in 1990-91 to 190 in 1996-97, a 123% increase. Similar regulators have been established for gas, electricity, telecommunications and railways.

### Changes in Agency staffing levels

The number of staff in agencies is not a reliable indicator of Civil Service staffing levels because of the constant formation of new agencies, privatisation of established agencies, contracting out and changes in government policies. The number of staff in agencies increased from 339,620 in April 1994 to 350,126 by April 1996 (full-time equivalents). This concealed a substantial decline in staff numbers in some agencies, a 7.8% increase in 18 agencies employing nearly 90,000 staff, and others where staffing remained virtually constant.

The 1995 Annual Report of the Parliamentary Commissioner for Administration puts a different perspective on changes in Civil Service staffing levels. "Reduction in staff numbers, organisation changes and new working practices will continue for some time to place individual civil servants under stress. There is a risk that fewer staff will lead to a slower service and to more mistakes because civil servants will have less time for thoughts to enable them to pursue considered and prudent action." IPMS noted that the report was the most critical since the ombudsman office was established 28 years ago. Complaints rose by 70% in two years to 1,706 and are forecast to almost double in the next three years. (*Civil Service: 2000*, IPMS, 1996)

## Impact of agencies on departmental running costs

The introduction of agencies has not led to any fundamental change in gross administrative costs as a percentage of central government departmental spending (excluding the Ministry of Defence). The gross running costs of central government departments, excluding defence, are shown in Table 2.4. The November 1996 Budget increased the allocation by £230m in 1997-98 and by £355m in 1998-99 from previous plans.

Table 2.4: **Gross Administrative Expenditure of Civil Departments (£m)**

Year	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
Admin. Costs	12,143	13,693	14,939	14,997	14,966	15,344	14,952	14,725	14,395

Note: Excludes Ministry of Defence

Source: Table 3.9, Public Expenditure, HM Treasury, Cm 3201, HMSO, 1996 and Financial Statement and Budget Forecast 1997-98, HM Treasury, November 1996.

In 1990-91, administrative costs were 10.98% of spending and by 1995-96 it had fallen to 9.56%, a reduction of about 13% over a six year period (see Table 2.5). However, these overall figures disguise a number of important changes:

- \* the privatisation of 13 agencies between 1993-96 will have reduced government administration costs by an estimated £400m (not a saving but a transfer to another budget as a payment for services).
- \* the abolition or transfer of central government departmental responsibilities to other organisations. It is not possible to quantify the financial effect.
- \* the Government has strictly controlled departmental spending, setting annual efficiency targets and requiring pay increases to be internally funded.

The net effect of these changes should have led to a significant reduction in Government running costs.

Table 2.5: **Changes in running costs as a proportion of spending**

Year	% administration costs of department spending
1990-91	10.98
1991-92	11.23
1992-93	11.04
1993-94	10.27
1994-95	9.88
1995-96	9.56

Source: Tables 3.1 and 3.9, Public Expenditure, HM Treasury, Cm 3201, HMSO, 1996.

We have also examined the administrative costs of the Department of Social Security agencies (Table 2.6). This shows a constant increase in administrative costs.

Table 2.6: **Administrative expenditure by agencies (£m)**

Agency	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
Benefits Agency	1,068	1,136	1,358	1,497	1,708	1,879
Contributions Agency	n/a	n/a	149	205	253	247
Child Support Agency	53	53	78	126	169	193
War Widows Agency	-	25	24	37	47	45

Source: Social Security Departmental Report, The Government's Expenditure Plans, 1996-97 to 1998-99, Cm 3213, HMSO, 1996.

Linking administrative costs and benefit expenditure is essential. Table 2.7 shows that the Department of Social Security costs as a percentage of benefit expenditure has remained virtually static. There have been fluctuations in the number of claimants with more pensioners claiming income support, a rise in the number of lone parent families and long term sick and disabled claimants although the number claiming unemployment benefit and short-term sick claimants has fallen.

Table 2.7 combines the administrative costs of contributory (paid from the National Insurance Fund) and non-contributory benefits (paid from budgets agreed by Parliament). This covers all benefits including pensions, income support, housing benefit and unemployment benefit. The sweeping Government claims about reduced running costs clearly do not apply to several agencies at the core of the British welfare state.

Table 2.7 **Total administrative costs for all departments (£m)**

Agency	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
DSS	2,132	2,333	2,585	2,954	2,809	3,155
Department for Education and Employment	455	565	646	769	789	582
Other departments	234	301	337	97	129	120
Local authorities	385	418	430	453	474	484
Total administrative costs	3,206	3,617	3,998	4,273	4,201	4,341
Benefit expenditure	56,509	66,382	75,336	82,427	84,866	88,787
Total DSS costs as a percentage of benefit expenditure	3.8	3.5	3.4	3.5	3.3	3.6

Source: Social Security Departmental Report, The Government's Expenditure Plans, 1996-97 to 1998-99, Cm 3213, HMSO, 1996.

The National Performance Review claim that agencies "have reduced Britain's civil service by one third and cut operating costs an average 3%-4% a year is not proven. Some of these reductions are illusory. Taxpayers are still paying for staff who are now employed by private contractors. The only significant changes are the budget heading, staffing levels, terms and conditions.

Government administration costs more than trebled in New Zealand between 1984 and 1990 in the period when restructuring, privatisation and commercialisation was applied across all services (Kelsey 1995). The cost of government administration was NZ\$816m in 1984 but soared to NZ\$3,026m by 1991 and remained at this level.

## The attempt to separate policy and operational issues

The agency model is based on the organisational separation of functions of policy formulation (also described as client or purchaser responsibilities) from that of operational or service delivery activities (also known as provider or contractor responsibilities). The separation of client and provider functions means that the client must spend significant resources managing the contractors and monitoring their performance. The Next Steps agency model has only some elements of an internal market. Some agencies supply services not only to their host department but also to other departments and agencies. However, there has been only limited inter-agency competition because the main focus has been submitting agency work to competitive tendering under the Government's Competing for quality programme.

The separation of policy and operational matters has proved more difficult in practice and some would argue is fundamentally flawed. The conflict over the Child Support Agency

and the Prison Service highlighted this issue. Home Office Minister Michael Howard argued that there was a difference between responsibility and accountability.

A decision to postpone the pursuit of 350,000 fathers in 1995 because of a backlog in the agency's work was taken by a junior Social Security Minister, not by the Child Support Agency's chief executive. At the time it raised questions about whether this was a policy or an operational decision. The previous head of the Agency also had difficulty answering MPs questions about the formula for recovering cash from absent parents because they were policy, and not operational matters.

The Government has attempted to distinguish between accountability (which cannot be delegated) and responsibility (which can) but the Treasury and Civil Service Select Committee have remained sceptical of this approach.

Some departments have recruited new staff to rebuild policy units after they were transferred to agencies, as has been confirmed by the Trosa study (Cabinet Office, 1994). More evidence about the failure to separate policy and operational matters can be found in the following statement from Sir Peter Kemp, former head of the Government's Efficiency Unit: "...one of the ambitions of the Next Steps reforms was to relieve ministers and senior civil servants from day-to-day preoccupation with managerial detail precisely in order to consider the bigger picture and the wider issues. This has not happened." (*A Better Machine, Government for the 21st Century*, European Policy Forum, 1996). It is significant that the same split was strongly promoted in local government in connection with Compulsory Competitive Tendering. The Government's Audit Commission and all the major management consultants encouraged local authorities to separate client and contractor roles both during and after tendering. However, eight years later a strict client-contractor split is not a current management fad. Local authority Direct Service Organisations (DSO) are similar to agencies, both being responsible for delivering services, their accounts, separate management and so on.

There are important lessons:

1. The vast majority of local authorities do not operate a strict client-contractor split and even the Audit Commission is now recommending a flexible and less dogmatic approach.
2. In authorities where large DSOs have been created, they are heavily involved in policy matters.
3. Local authority social service departments were encouraged to separate client and contractor activities with respect to the provision of community care services but many authorities have been abolishing such distinctions and recreating integrated departments.
4. The Labour Party is committed to abolishing Compulsory Competitive Tendering. However, the system has created a strong lobby to relax the regulations whilst effectively maintaining the status quo and thus protecting the interests of Direct Service Organisations.

The sacked Director General of the Prison Service, Derek Lewis, concluded:

"The division between policy and operations will never insulate ministers from responsibility for what goes on in their departments. They do different jobs. Ministers set policy, provide money and supervise: civil servants manage operations and provide the services, but responsibility extends seamlessly all the way up from the front-line employee through the chief executive to the minister concerned. An honest acceptance of that, with an understanding that ministers do not necessarily need to resign when things go wrong unless they are personally at fault, would go a long way to restoring confidence in the accountability of our public services." (The Guardian, 13 May 1996).

## Relationship between agencies and departments

The relationship between departments and agencies has been a continuing issue of concern and a number of studies have been carried out. The Prime Minister's Efficiency Adviser, Sir Angus Fraser, chaired a committee in 1991 to examine the relationship between agencies and departments and how the latter were adapting their organisation and working practices. One of the main recommendations of the report was the establishment of what has become known as the 'Fraser Figure' in each department - a senior official to facilitate the relationship between the Minister, department and agency. In some departments a Departmental Coordinating Group has also been set up to support the Fraser Figure and to work directly with the agency(s).

The study found that chief executives, three years into the agency programme, were spending a great deal of time working out relationships with their respective departments. Although each agency's Framework Document sets out the responsibility of the chief executive as the accounting officer, "...some uncertainty remains about the respective responsibilities of Agency Chief Executives and Permanent Secretaries." (*Making the Most of Next Steps*, May 1991 - the Fraser Report)

The Fraser Report also called for an aggregate reduction of 25% in departmental headquarters finance and personnel staff. However, when the chairperson of the Treasury and Civil Service Committee questioned Sir Angus Fraser on this matter, he described it as "an arbitrary figure", "a guess" and "to some extent unscientific". (*Next Steps: A Union Critique*, Public Money & Management, 1991)

The Trosa Report examined the extent to which the Fraser recommendations had been implemented, including departmental arrangements for overseeing the management of agencies, the relationship between Ministers, Departmental Advisory Boards, departments and agency chief executives and the use and monitoring of performance measures. It was carried out by Sylvie Trosa, a French civil servant on secondment to the Office of Public Service & Science and was conducted mainly through interviews in 26 agencies and 9 departments. It revealed that only 20% of agencies had a good relationship with their parent department.

The study concluded that "...there exists a considerable cultural gap on both sides with Chief Executives often believing that departments' management is a bureaucratic obstacle and Departments viewing Agencies as little fortresses following their own aims regardless." It also found that "....the basis on which common values could be built (for example the aims of public policies) do not seem to be valued enough; in fact they are seldom mentioned. Agencies act as if their service delivery had no impact on public policies" (this is certainly the case of the Prison Service - see Part 3).

There were also "....tensions between Departments and Agencies about the appropriate degree of flexibility. Agencies consider that they are almost separate from the Department and that they should have any flexibility required by their management; Departments, on the other hand, tend to examine only the cohesion and the uniformity of rules."

Trosa also concluded that "Agencies are a compromise; they are semi-autonomous bodies within a Department. As long as they are part of a Department, it will be difficult to make a success of Next Steps (which means that everybody shares the values of output orientated activities, a more customer related attitude, greater responsibility and accountability) without extending the values of Next Steps to the whole Department" by more interchange of staff and the extension of Next Steps principles to the remaining parts of Departments. Little was being done at the time to develop a common understanding. She also noted that all other countries adopting the same agency model were experiencing the same problem of a growing gap between the Centre of departments and agencies. "Financial management and personnel rules will become more and more different, the only element of unity which will be left, besides ethical standards, will be the uniform tag of being a civil servant."

## Ministerial controls

Ministers have a wide range of controls over agencies. These include the approval of:

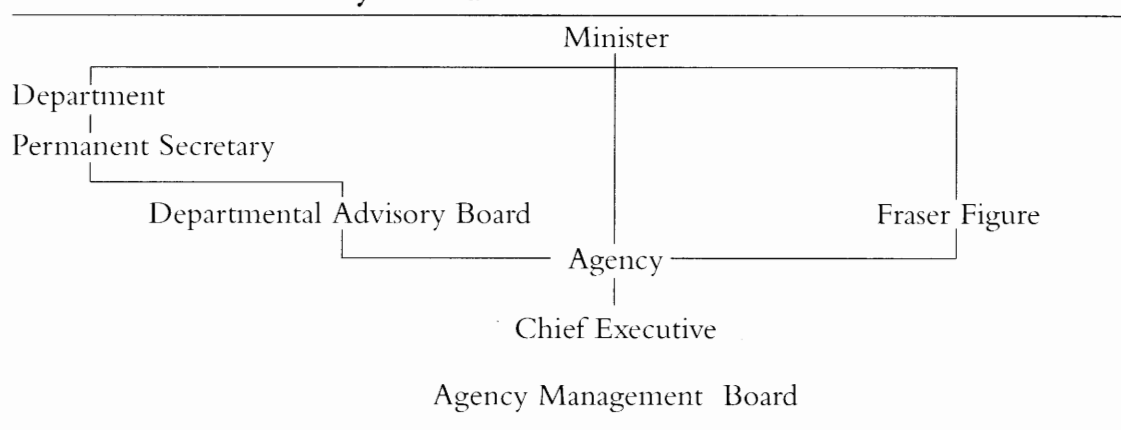
- ★ the agency's **Framework Document** which sets out the relationship between the department and the agency and its operational responsibilities;
- ★ the appointment of the **chief executive** and their remuneration;
- ★ the **Corporate and Business Plans**;
- ★ the **Key Performance Indicators**;
- ★ the agency's **budget**, as part of the annual public expenditure cycle;
- ★ the agency's annual **Efficiency Plan** which is also assessed by the Efficiency Unit and the Treasury;
- ★ a **Prior Options Review** of the agency every five years.

## Departmental Advisory Boards and Management Committees

Many departments have established Advisory Boards to advise Ministers on the work and performance of agencies although there is no requirement to establish them. Boards are usually chaired by the department's Permanent Secretary and have the agency's chief executive, the heads of various sections including finance, personnel and strategic planning. Some Advisory Boards have non-Civil Service appointees. For example, the UK Passport Agency Board has five members including the former managing directors of Boots Retail Division (the major pharmaceutical and cosmetic chain) and Littlewoods Pools (the largest soccer gambling operator). The Occupational Health and Safety Agency Board is one of the largest including senior civil servants, academics, two trade union leaders, the chairperson of Fairey Group plc (engineering) and the former head of personnel of the Trustees Savings Bank.

Some agencies also have Management Committees which are responsible for the day-to-day management of the agency and usually include the chief executive together with the heads of agency sections. The overall departmental and agency structure is shown in Chart 2.1.

Chart 2.1: **Accountability structure**



## Role of chief executives

Chief executives are responsible and accountable to a Minister in a 'quasi-contractual' relationship. A Framework Document sets out the responsibilities of both sides including the agencies performance targets.

Of the 131 chief executives (and designate appointed chief executives) 90 (69%) have been appointed by open competition, 21 have been internal appointments and 20 have been Armed Forces appointments. Of the chief executives appointed through open competition only 33 (37%) have been from outside the civil service. The current overall position is that

of the 131 chief executives, 25% are external appointees and 75% internal. There are only 6 (5%) female chief executives.

The Massey report, published by the Office of Public Service & Science and carried out by a University of Portsmouth lecturer, surveyed chief executives in 1994 to explore their relationship with Ministers and departments. Fourteen agencies took part in the survey. The most frequently cited items were 'reform weariness' and the need to consolidate the organisation; greater independence, perhaps as free standing departments in their own right; wanting less interference from central departments; desire for more managerial delegation; need for better strategic planning; sought greater commercial freedom and more agencies to be privatised.

## Business or public service planning

Each agency is required to prepare a 3 year Corporate Plan setting out how it will achieve the aims and objectives of the agency together with a more detailed annual Business Plan which sets out a plan of action covering resources, staffing and targets. The terms of the plans are set out in the Framework Document and must be approved by the Minister. The agency must also contribute to the department's annual Efficiency Plan.

### Analysis of business plans

We have carried out an analysis of a sample of agency Business Plans using the model of a Public Service Plan developed by the Centre for Public Services and adopted by many local authorities and public bodies (Centre for Public Services, 1993).

A Public Service Plan is based on eight elements:

- ★ Strategic Objectives
- ★ Service Profile and Resource Audit
- ★ Sector or Market Analysis including policy context
- ★ User Needs
- ★ Strategic Plan
- ★ Staffing or Employment Plan
- ★ Operational Plan
- ★ Monitoring and Evaluation

We assessed the plans of 11 agencies for 1996-97 from the UK Passport Agency, Northern Ireland Prison Service, the Court Service, Coastguard, Public Trust Office, National Statistics, Scottish Court Service, Highways Agency, Contributions Agency, Training and Employment Agency and the Social Security Agency (Northern Ireland). This was a random selection of plans but represents a cross section of different types of agencies. Each plan was assessed against the eight criteria noted above to determine the extent and depth of analysis. Some significant conclusions were drawn.

Firstly, 75% of the plans had no staffing or employment plan. Given that agencies have responsibility for pay and conditions of service from April 1996, this is remarkable. Only three plans even attempted to identify their employment policy.

Secondly, most plans detailed the performance measures and targets but there was a distinct lack of analysis or proposals concerning how these might be implemented or achieved. Virtually all plans listed specific measures to be taken in the coming year but these generally appeared as lists of projects or tasks.

Thirdly, only half the plans provided an economic, policy or 'business' context.

Fourthly, the extent to which user needs were identified was usually limited to a Citizen's Charter statement or reference to customer service. Only one plan made any real attempt to provide any details on this matter. The use of 'business' language to describe essential public services is also another matter for concern.

Finally, the threat of external competition was not relevant for most of the agencies in the sample. Most referred to their market testing programme but this appeared as little more than indicating the size or value of this programme, presumably for ministerial consumption. There was a distinct lack of assessment of external contractors or the



consequences for the agency if work was contracted out.

Corporate Plans for six agencies were also examined but they exhibited the same failings as the Business Plans. The system of three year Corporate Plans and annual Business Plans needs further improvement and development and unification into one document and planning process.

### **Agencies adopting business methods**

The adoption of business methods and values has been a consistent government policy. However, the 1995 Price Waterhouse survey of agency chief executives referred to the problems experienced by chief executives from the private sector who report "...the undue emphasis put by politicians on running agencies in a business-like way. The impression given is that this is paramount. Undoubtedly, it is very important, but not to the exclusion of everything else. One chief executive from the private sector told us that he thought it was an appalling oversimplification to say that private is best."

The report also concludes that to have "...a corporate plan may be good business practice but not always in political situations. Short-term 'planning' is the reality then...The handling of operational matters can give rise to great public and parliamentary concern...Agencies are not businesses." (Executive Agencies Survey Report 1995, Price Waterhouse) Clearly, within the terms of business planning agencies have much to learn. More importantly, we found little evidence of a public service planning approach which should be considered essential for government organisations.

### **Financial accountability**

Agencies are currently funded in one of two ways.

1. Trading Fund - the agency earns income from trading, such as Her Majesty's Stationery Office (HMSO) which prints and distributes Government publications.
2. Parliamentary approval of Civil Service budgets which have traditionally been based on annual gross running costs.

The Trosa study showed that agencies generally wanted to retain a higher proportion of efficiency savings and have greater financial freedom. Arbitrary annual efficiency savings have been imposed on agencies and departments. 1.5% in 1991/92 rising to 4% in 1994/95. Total cash spending on running civil service departments will be held at the same level in 1997-98 as in 1993-94 implying a cut of 10% in real terms. The most recent White Paper on the Civil Service (*Taking Forward Continuity and Change*) stated that the approach to containing civil service costs "...is based on the assumption that pay and price increases should be offset, or more than offset, by efficiencies and other economies with adjustments as necessary for workload." (para 3.3)

The Treasury has been funding 80% of departmental and agency costs incurred in the retirement, redundancy and severance schemes. Up to £50m was allocated in 1994/95 and the scheme is currently planned to end in March 1997 and all future costs will have to be borne by departments and agencies.

### **The Efficiency Plans**

The concept of annual departmental Efficiency Plans was introduced in the White Paper, *The Civil Service: Continuity and Change* in 1994. The first plans were submitted to the Efficiency Unit and HM Treasury in May 1995. Efficiency Plans are intended as a 'strategic management tool' to:

- “★ set out how they intend to meet their objectives while staying within their running cost limits for the next three financial years;
- ★ bring together the full range of efficiency approaches so that they are able to establish priorities and ensure that they are focusing their efforts in the most effective way;
- ★ show how they intend to measure performance and output in order to improve efficiency;

- \* measure the effectiveness of the efficiency measures that they have taken in previous years, both in helping to control running costs and in improving performance in other ways;
- \* ensure that they are able to implement the Government's policies of promoting competition and encouraging greater private sector involvement in the provision of Government services, as a means of improving value for money; and
- \* monitor the progress of reviews and actions through the year."

(Next Steps Review 1995)

The departmental efficiency plans were summarised in a special issue of *Government Opportunities* (a monthly Government contracts journal) in June 1995. They highlight the narrow focus of these plans, virtually all of which contained statements centred on the following phrases:

- 'market testing or contracting out of activities worth....'
- 'investigating opportunities for private finance'
- 'review of service provider areas using a range of efficiency measures'
- 'efficiency review'
- 'cost reviews'
- 'benchmarking exercises'
- 'undergo business process reengineering'
- 'pay and grading review'
- 'scheduled for privatisation'

A similar review of plans for 1996-97 revealed the same references. In effect, the Efficiency Plan is nothing more than a summary of the efficiency measures to be carried out and the total savings. In the 'main plans for 1995-96' section there is little or no mention of service developments or improvements unless they are to achieve 'substantial savings', no reference to improving public management and only limited reference to staff training and development. The emphasis is clearly on costs and the statement in the objectives of Efficiency Plans to "...measure the effectiveness of the efficiency measures" seem very appropriate.

Guidance to help agencies prepare their Efficiency Plans was issued by the Efficiency Unit in November 1995. It suggests twelve efficiency techniques, the first five of which focus on privatisation rather than improvements in organisation or management. The techniques or policies are:

1. The prior options process (see above)
2. The core procurement process, including partnering
3. Market testing and strategic contracting out
4. Private Finance Initiative
5. Central Government privatisation
6. Benchmarking
7. Business process reengineering
8. Priority based cost management
9. Efficiency scrutinies
10. Senior management reviews
11. Pay and grading delegation
12. IT investment

### **Agencies reinventing the wheel**

There is a lack of cooperation between agencies. The 1995 Price Waterhouse survey found that "even agencies in the same department can show little interest in sharing experiences. Most are 'reinventing the wheel'."

### **Culture change**

The need to save money through efficiency measures and market testing has tended to dominate agency management practices. As discussed in chapter 5, no additional money is made available to fund civil service pay increases which must be funded from efficiency and market testing savings.

It can also be concluded that too much emphasis may have been placed on the formation of agencies and the organisational framework, rather than on changing the traditional civil service culture, management practices or procedures. Organisational change has been much more extensive than managerial and cultural change. Agency status is not enough alone, to generate major change in the running of Government departments. The emphasis has been on transferring business and commercial practices into agencies with little commitment to developing public service management.

### **Myth and reality of competition**

Some research has concluded that the agency model

“...seeks to decentralise the civil service, to take authority away from the centre and delegate more clearly to the service deliverers, (civil servants). What it does not do, except at the margins, is to increase the level of competition faced by the agency. It is emphatically not about rivalry, competition or privatisation. Yet agency-speak is not just about improved service delivery to customers, an entirely laudable aim, but also muddled with ideas of external enemies and beating the competition. This mismatch between rhetoric and reality is both confusing and demoralising for service deliverers who can detect little, if any, real difference between the jobs they do now and those they did prior to agency status, with the possible exception of a tighter focus on targets.” (Mellon, 1993)

However, competition **has** been imposed on the agency model in two ways. The Government's Competing for Quality initiative, in which market testing is the dominant programme, superimposes market testing on agencies and this is reinforced by the annual departmental Efficiency Plans. Secondly, agencies are regularly vetted for privatisation and sold off at government convenience.

### **Loss of public service ethos**

In Britain, agencies are part of a ‘new public management’ approach which is loosely defined and centred on competition, privatisation, tendering and internal markets. There has never been a clear concept of public services management. This has led to the commercialisation of services and the subsequent erosion of public service values.

### **New Public Management: copying the private sector**

The agency model is also an integral part of ‘new public management’ in Britain which the Organisation for Economic Co-operation and Development (OECD) has termed performance management. This has a number of core elements including competition and contracting; the separation of purchaser and provider; cost control systems and efficiency measures; entrepreneurial management and a shift of power to senior managers; a focus on performance reviews, targets and audits; adoption of business values and practices in public services and deregulation of the labour market.

### **Public service organisation or private company?**

The statement by Vice President Al Gore in the introduction concerning agencies becoming ‘like private sector companies’ raises some very important issues. The evidence from Britain and New Zealand indicates that hybrid agencies do not work. The more commercial agencies become, the pressure for privatisation only intensifies.

We have already noted that many agencies are involved in policy but as they become more commercial, a number of conflicts of interest arise. How can agencies help to formulate public policy at the same time as having an overt commercial or business interest in the implementation of those policies? Agencies in this position are likely to make decisions which are in the organisations own longer term business interests rather than in the interests of taxpayers and service users. The economic interests of agencies will impose certain interests and value such as the retention of contracts, market share, surplus or profit maximisation, promotion and marketing. If privatised, agencies would cease their direct involvement in policy formulation. This would enforce a total policy-operational separation, which is problematic.

Another outcome of commercialisation is the 'freedom' to drive market forces into pay and conditions of service. Staff, apart from senior managers, inevitably bear the brunt of 'savings'. It is also inevitable that questions will be asked about why the government 'owns' agencies which are commercial organisations operating as if they are private companies. This is likely to mean that their ownership is constantly debated leaving agencies in a state of flux.

Commercialisation also creates internal pressures. Having created commercial organisations, who effectively controls them – chief executives and directors or Ministers? What role, if any, do political appointees have in US agencies? What system of accountability can be built into commercialised agencies? These are fundamental questions which only serve to highlight the evidence from Britain that the only real choice is between democratically accountable public service organisations or private companies.

## Summary of key issues and recommendations

- The attempt to separate policy and operational issues remains a major issue in Government departments in Britain. Policy and operational issues cannot be fully separated and the extent to which this is feasible and/or desirable is questionable. Policy requires feedback from implementation and implementation requires a clearly thought out strategy which can be translated into practice. They are interdependent.
- The concept that agencies allow Ministers and departments to concentrate on policy issues is only superficially attractive. In Britain, this currently means restructuring the welfare state, extending privatisation, deregulation of the labour market and the private finance of public services. This begs the question about the so-called advantages of Ministers and departments having more time to formulate policies.
- There is much greater emphasis on strategic and business planning and the establishment of agencies provided a means by which this could be integrated into management practice. This is a welcome development. However, the quality of the published plans has been inadequate, mainly because of the general adoption of commercial and business values and practices. There is an urgent need for public service planning based on public service principles.
- Organisational issues should not dominate the agency debate. Management strategies, policies and working practices must also be an integral part of the approach. In Britain, the organisational form of government has historically dominated public management. The separation of the organisational from managerial and operational practices is not in the interests of government, staff or service users.
- There are other variations of the agency model, ranging from more fully integrating 'agencies' as management units within departments, recognising that separation of policy and operations is unacceptable, to moving agencies into separate stand alone organisations or commissions with clear lines of accountability.
- The transition from a hierarchical Civil Service to the agency model has been expensive and transaction costs should ideally be met fully, or at least partially, funded by the Government. This should help to avoid agencies being dominated by the need to fund these costs from efficiency measures which come to dominate management agendas at the expense of implementing best practice.
- The establishment of agencies and their subsequent performance has been greatly affected by other government policies, particularly public spending constraints, demands for efficiency savings, market testing and privatisation which have overridden other agency priorities.
- There have been many important improvements in the quality of services, more comprehensive planning of services and the availability of public information about services and government departments. Identifying cause and effect is very difficult but there is little doubt that agencies are responsible for part of these improvements. The problem is identifying and quantifying how and why and at what cost these services have changed. The task is to dig beneath the glossy presentational success of the agency model to determine fact from fiction.

## Part 3

# Performance and quality of service

### Introduction

The setting of performance measures and targets has played a key role in the justification and success of agencies. The Government is using agency performance measures to show how successful the agency model is in providing better services more efficiently. However, this approach is highly dubious for two reasons.

Firstly, the performance measures are only indicative of the performance of certain parts of an agency's work and since many measures are at an early stage of development, superficial analysis has often been converted into concrete evidence.

Secondly, the bulk of the efficiency savings originated from market testing, not from the agency model. The only legitimate claim is that agencies put work out to tender more quickly than if they had remained an integral part of the department although this would account for only a small part of the efficiency savings. Market testing was the central part of the Competing for Quality programme which applied across the whole of government.

It is also important to note that the Government has not carried out a comprehensive study of the agency model. The Efficiency Unit and the National Audit Office have investigated only certain aspects and yet there is no comprehensive analysis to prove the 'success' of agencies.

This chapter examines the following issues:

- ★ Use and abuse of performance measures
- ★ The Citizen's Charter
- ★ Quality of service
- ★ Overall agency performance
- ★ Performance of the Prison Service Agency
- ★ Performance of the Pensions Agencies
- ★ Performance of Social Security Agencies

### Use and abuse of performance measures and criteria

Agency performance is assessed on the performance measures and targets set out in the Framework Document prior to each formation of the agency and in the annual Business Plan produced by each agency.

The need for performance measures and targets and their use by staff and management to improve the effectiveness of an organisation and the quality of service is not in question. But performance measures can easily be abused by setting targets which are at or below current performance, by selecting measures which give only a partial indication of performance or by changing the measure or its definition and thus preventing longer term assessment.

The Government's efficiency drive has resulted in the existing performance measures being regarded as the de facto performance of agencies, with the genuine qualifications and difficulties of performance measurement quietly ignored. The assessment of agency performance measures must take account of the following:

Despite agencies collectively having 1,400 key performance targets in 1994-95, the Next Steps Review 1995 admits that "...there are just over 500 performance targets (only about 37% of the total) which are numeric and otherwise suitable for comparison between the current year (1995-96) and the previous one." In other words, almost two thirds of the

performance targets have somewhat limited use since they are not directly comparable with previous years.

- The Efficiency Unit does not carry out any independent auditing of service levels as reported by departments or agencies for pre- and post- Competing for Quality reviews. It simply accepts the data from agencies and departments. The quality of monitoring and evaluation is a major problem in all public sector bodies and this must bring into question the validity of performance measurement in agencies.
- Some agency objectives do not have performance measures because they would expose the current and/or previous mistakes and poor service standards. For example, the Social Security Contributions Agency (which collects National Insurance contributions from employers) has an objective to keep accurate national contributions records. However, no performance measure was cited. A National Audit Office investigation uncovered large numbers of errors and said "...it would be politically unacceptable to publicise widely the high proportion of inaccuracies in national insurance contributions records through new performance measures and targets." (*Transforming Central Government*, Greer, 1994)
- The large agencies with national networks of offices have also had to come to terms with finding a common measuring system since the same criteria were not used in each office (for example, determining the date when a benefit claim was made).
- Although the setting of targets has improved, the Trosa report found that "...the targets of some agencies do not reflect adequately the core activity of the Agency and its aims. The contradictions between targets, for example efficiency and quality targets, are not sufficiently analysed." (*Next Steps: Moving On, the Trosa Report*, 1994)
- Staffing levels in agencies change from year to year making some comparisons of overall performance difficult. In addition, no account taken of the wide range in the size of agencies ranging from over 68,000 staff in the Benefits Agency to 25 staff in the Wilton Park Conference Centre agency.
- Performance criteria in many services should only be examined as a group of measures and not individually so as to avoid the achievement of some service standards at the expense of others.

The success or failure of agencies is judged largely by the criteria set at the beginning. If they are too low, ill-defined or inadequate they are likely to have a negative impact on staff morale and service quality. Furthermore, the organisation will use valuable resources trying to increase the performance of the indicators rather than improving the quality of the service.

### Performance targets set prior to agency status

Many departments had already set performance targets and were monitoring progress long before agency status. For example, the Public Trust Office, the Lord Chancellors Department, had 28 main targets in 1992-93 following a series of reviews and a National Audit Office study.

The National Audit Office also carried out a review of the first agency, the Vehicle Inspectorate, established in 1988. There was a high degree of tension between the respective roles of the Treasury and the National Audit Office in the early stages of the Next Steps initiative which may partly account for the lack of critical analysis. (Greer, 1994)

The report on the Vehicle Inspectorate notes the improvements in service and efficiency savings and that these were being developed before agency status. "The extent to which these improvements were the direct result of Agency status is, however, difficult to determine. The National Audit Office consider that the flexibilities (such as financial and contractual delegations) offered by Agency status, although useful, do not in themselves account for the changes that have taken place in the Inspectorate. These changes could have taken place without the additional delegated powers that Agency status brings." (National Audit Office, HC 249, 1992) However, they also concluded that the changes which had taken place could not have proceeded at the same pace if the Inspectorate had not been an agency.

## Proliferation of agencies

The large number of agencies (125 existing and 37 candidates for agency status) and some 6,424 Quasi-Autonomous non-Governmental Organisations (QUANGOS) make it very difficult for Parliament to scrutinise the activities of government. Agencies have the freedom to operate differently which only magnifies the problem of communications, accountability and inter-agency comparisons.

## Benchmarking

Thirty agencies including the Benefits Agency, the Child Support Agency, NHS Estates, Medical Supplies Agency and the Driver & Vehicle Licensing Agency have commenced use of the British Quality Foundation's Business Excellence Model of benchmarking. The model measures organisations against nine criteria: leadership, people management, policy and strategy, resources, processes, people satisfaction, customer satisfaction, impact on society, and business results. The assessment is scored and the Foundation will provide agencies with data showing where they stand against best practice in the public and private sectors.

Launching the initiative, the then Deputy Prime Minister Michael Heseltine, called it "...a drive towards demonstrable improvements in efficiency and quality of performance." Clearly, this marks the start of a concerted effort to compare civil service performance with private sector performance. It is a diversion from genuine work on performance measures and introduces new arguments concerning the validity of public-private comparisons.

## The Citizen's Charter

The Government launched the Citizen's Charter initiative in 1991 to focus on 'customer care' and to improve the effectiveness of public services. The Government publishes an annual Citizen's Charter Report which details service improvements across the public sector.

"Next Steps is the vehicle for the delivery of the Citizen's Charter within central government via those agencies which serve the public." (Next Steps Briefing Note, April 1996) The six key principles of the Charter are:

- \* Standards
- \* Information and openness
- \* Choice and consultation
- \* Courtesy and helpfulness
- \* Putting things right
- \* Value for money

The government has awarded sixty two agencies with Charter Mark Awards. Awards are made on the basis of evidence that performance standards in the six categories noted above have been achieved.

## Quality of service

The assessment of quality of service has been given a very high profile in the civil service. Despite all the rhetoric, there are clearly problems in measuring quality and this continues to be the case. For example, the 1996 Efficiency Unit Policy Review made a revealing statement "...there appears to have been relatively little systematic evaluation of quality by Departments in the areas affected by Competing for Quality prior to the inception of the programme."

But this has been a problem from the start of the agency initiative. At hearings of the Treasury and Civil Service Committee in June 1991, it was reported, that of some 2,000 performance measures used in agencies, only about 10 were specifically geared to quality of service. Furthermore, 9 of the first 40 agencies did not have any quality targets. (*Next Steps: A Union Critique*, Public Money & Management, 1991)

### Impact on quality during the Competing for Quality process

The Efficiency Unit carried out surveys of staff and users with the following results:

- \* 80% of staff surveyed observed a decline in performance during the process;
- \* users were equally divided between those observing a decline in service and those considering it improved;
- \* twice as many users considered the service had declined in the transition to a new contract or Service Level Agreement, whilst only 17% considered it had improved.

### Impact on quality after the Competing for Quality process

The Citizen's Charter proposed that user views should be the most important aspect in assessing quality. The Efficiency Unit survey after the completion of the Competing for Quality process is, therefore, very revealing:

Improved	34%
Stayed the same	32%
Got worse	29%
Don't know	5%

There is an almost even split between those who considered it had improved, stayed the same, or had declined. No survey data was published in the study, restricting any further analysis by type of users. The survey was based on a very narrow definition of quality making conclusions difficult to assess.

## Overall agency performance

The overall performance of agencies increased from 76% in 1991-92 to 77%, 80% and 83% in the subsequent three years. Targets are grouped into four categories - quality, financial, efficiency and volume of work. The Next Steps Review shows annual performance in these categories in a chart format but provides no actual figures. However, it clearly shows that **quality of service has remained virtually static since 1991-92 at about 80%.**

In contrast, improvements have been made in the financial (up from about 72% to 85%) and efficiency (up from 75% to 90%) targets, which are the source of the overall increase in meeting the performance targets.

A study of 53 agency annual reports for 1991-92 concluded that there were many targets "...that were more indicative of internal management processes than of external performance accountability." Analysis of trading fund agencies found that "...the appropriateness of commercial financial performance indicators in situations where an agency is a monopoly supplier to a tied customer is clearly questionable and such indicators can have only limited use in evaluating performance." Performance measures for quality "...were found relatively infrequently" and tended to consist of surveys or questionnaires of users.

The study concluded: "It seems evident that any independent verification of the performance indicators, no matter what form it takes or who undertakes it, is going to add even more costs to a process which many consider to provide only limited benefits. Apart from the general problem that there will be an inevitable emphasis given to measuring what is immediately measurable, rather than on what should be measured, there are also potential problems associated with the underlying targets that are set in the first place." (Developments in the Accountability and Financial Reporting Practices of Executive Agencies, M.Pendlebury, R. Jones and Y. Karbhari, Financial Accountability & Management, Vol. 10, No 1, February 1994).

## Performance of the Prison Service Agency

The Prison Service became an executive agency of the Home Office on 1 April 1993. It employs 38,965 staff and the Northern Ireland and Scottish Prison Services are separate agencies. In March 1993 there were 42,870 prisoners in custody at 128 establishments. Two years later, the prison population had increased to 51,600 prisoners. The agency has



contracted out the management and operation of four prisons and six new prisons are at various stages of development under the Private Finance Initiative.

The agency has had a number of major crises which have included:

- ★ break out from Whitemoor high security prison in September 1994;
- ★ three prisoners escaped from Parkhurst high security prison in January 1995;
- ★ Chief Executive of the Prison Service, Derek Lewis was sacked by the Home Secretary in October 1995 despite meeting all the performance targets in his contract. He later received £220,000 compensation;
- ★ Prison Service released 537 prisoners in August 1996 because of confusion over the length of sentences.

The Government set up a committee of enquiry which published a report, the Learmont Report, in October 1995. This report examined the management of the prison service, operational issues, the relationship between the agency and the Home Office and the performance of the agency.

### Prison Service performance

The Learmont Report examined the performance of the agency in some detail. The Prison Service has 8 Key Performance Indicators (KPI), set out in the Framework Document.

"It was a laudable and important first step. KPIs are, however, management tools that need regular review. They send messages to the workforce about what is important. There are grounds for concern in a number of areas. First, the KPIs showed a strong bias towards care issues (five KPI), to the potential detriment of custody (one KPI) and control (one KPI). Second, there were significant omissions in the areas of Headquarters staff reductions; staff development and commitment; recidivism; physical security; discipline; drugs; and suicides. The third major concern related to the way in which statistics were being collected and used. In particular, staff perceived KPIs, rightly or wrongly, as a benchmark for judgments about privatisation and were tempted to be economical with the truth when submitting returns." (Learmont Report, para 3.54)

The eight performance indicators together with their performance in the first four years of the agency operation are detailed below:

<b>1. Category A escapes</b>		<b>5. Access to sanitation</b>	
1992-93	2	1992-93	82%
1993-94	0	1993-94	91%
1994-95	8	1994-95	95%
1995-96	3	1995-96	99.5%
<b>2. Escapes from prison and from escorts</b>		<b>6. Purposeful activity</b>	
1992-93	347	<i>(average number of hours per week)</i>	
1993-94	296	1992-93	23.7
1994-95	217	1993-94	24.7
1995-96	122	1994-95	26.2
		1995-96	25.2
<b>3. Assaults</b>		<b>7. Percentage of population unlocked for 12+ hours per weekday</b>	
<b>Rate of total</b>		1992-93	24
1992-93	10.2%	1993-94	29
1993-94	12.3%	1994-95	40
1994-95	11.6%	1995-96	37.5
1995-96	10.6%		
<b>4. Overcrowding</b>		<b>8. Cost per place at 1992/93 prices (\$)</b>	
1992-93	21%	1992-93	36,356
1993-94	17%	1993-94	35,880
1994-95	17%	1994-95	35,694
1995-96	16%	1995-96	35,988

*Source: Corporate Plan 1996-99, H.M. Prison Service, May 1996.*

## Facts behind the figures

The Learmont Report examines the performance measures in further detail. It quotes the Director General of the Prison Service as stating that the Prison Service “....has been increasingly successful in achieving its key performance indicators, most notably in terms of escapes which have fallen by some 20% this year” (Appendix J, para 7). It notes that the agency’s Annual Report for 1993/94 records an even higher figure of a 25% reduction.

“The statistics quoted are accurate but hide a situation that the public might consider less of a cause for congratulation. First, they relate only to escapes from establishments and escorts, amounting to 273 from a total of 4,796 illicit absences in 1993-94. The latter figure equates to nearly 10% of the total prison population.

Second, hidden within the escape figures, are a number of escapes by very dangerous individuals, who only count as ‘one’ each in the bald statistics. Whatever the semantics of the statistical argument, in a period of less than four months, from September 1994 to January 1995, nine of the most dangerous prisoners in the system escaped from two of the very highest security prisons, the worst escape record in the history of the Service.” (Learmont Report, Appendix J, paras 8 and 9)

Other performance measures were also shown to be less convincing:

**Assaults:** This is an important indicator but the Learmont Report points out that the Prison Service combines all assaults (on staff, inmates and others) and whilst the overall figure increased rapidly in the early 1990s, the Prison Service “draws comfort” from its recent decline. However, the number of assaults on staff almost doubled from 1,750 to 3,204 in the 1989-94 period.

**Purposeful activity:** Each establishment has applied its own interpretation and this is often no more than free association. “Even in prisons where great effort has been made to provide genuinely purposeful activities, the total of such activity is limited because of staff and instructor shortages. This makes targets difficult to achieve legitimately.” (Learmont Report, Appendix J, paras 17 and 18)

**Time out of cell:** Learmont regards this as “....dangerous to good order and control”. They found that “....because there is a target, staff have attempted to reach it, regardless of a widespread concern, often shared by the inmates themselves, that the additional time only leads to aimless or, worse, mischievous activity.” (Learmont Report, Appendix J, paras 19-21)

**Exceeding visiting hours:** Visiting hours are linked to the objective of assisting prisoners to prepare for their return to the community but the report concluded that there was “....a lack of any true measure of the end result, make any such correlation tenuous.” Again, “....there was simply a compulsion on the staff to squeeze in as many visits as humanly possible, to meet and exceed targets.” (Learmont Report, Appendix J, paras 22 and 23).

The level of assaults on staff and prisoners in contracted out prisons was twice the level of the publicly provided prison service in 1994/95 (see Table 3.1).

Table 3.1. Comparison between public sector and private prisons

	Staff/others	The assaults per 100 population Prisoners	Total
Contracted out establishments	16.5	6.5	23.0
Local prisons & remand centres	7.7	4.6	12.3
Dispersed Prisons	9.4	2.9	12.4
Category ‘B’ Training Prisons	4.9	1.6	6.4

Source: Prison Service Annual Report and Accounts 1994/95, HMSO, June 1996.

Since becoming an agency in April 1993 there has been virtually no change in the cost per place despite four new private prisons (accounting for 3% of the prison population in 1994-95, and market testing). The cost per place declined by only 1% in the four year period 1992-93 to 1995-96 (based on 1992-93 price, prison service corporate plan 1996-99). This analysis of the agency’s performance is somewhat different from that gleaned from the annual Next Steps Review. Performance measures are, in effect, being used not only to conceal the real level of performance but also to justify the agency concept.

## Chief executive sacked

The Director General of the Prison Service, the agency's chief executive, Derek Lewis, was sacked in October 1995. There have been calls for the resignation or sacking of the current Director General over the confused handling of the recent early release of prisoners serving consecutive sentences.

After his sacking, Derek Lewis wrote a number of published letters to the Home Secretary and in the press. In a Guardian article he concluded that agencies

"...were not the great leap forward in management thinking that some people imagined. They were a face-saving label to enable the public sector to introduce basic management tools that any private sector business would have been bankrupt without. Our public services suffered for decades from the recruitment and development of staff narrowly focused on the role of advising ministers, rather than the less-glamorous task of making our services work properly. A double first from Oxbridge (Oxford and Cambridge Universities) may be an excellent basis on which to recruit policy advisers but it is not necessarily a good indicator of management and leadership abilities." (The Guardian, 13 May 1996)

## The policy-operational split

The structure of accountability in agencies was described in Chapter 2. Accordingly the Framework Document for the Prison Service includes a section on accountability which states:

"The Home Secretary is accountable to Parliament for the Prison Service...allocates resources...and approves its Corporate and Business Plans, including its key targets. The Home Secretary will not normally become involved in the day-to-day management of the Prison Service but will expect to be consulted by the Director General on the handling of operational matters which could give rise to grave public or Parliamentary concern. ...and will receive reports from the Director General on the following matters:

- \* escape of a Category A prisoner;
- \* apparent suicide of a prisoner;
- \* serious disturbance involving a number of prisoners and damage to person or property;
- \* any incident, issue or other matter which is likely to arouse Parliamentary or public concern;
- \* national or particularly serious local industrial action or dispute;
- \* major change in an establishment's functions or the proposed permanent closure of an establishment".

Derek Lewis has claimed that agency status did not bring greater operational autonomy, in fact, the reverse was the case. The Learmont Report states that over 1,000 documents had been submitted from the Prison Service to the Home Office in a four month period from October 1994-January 1995 covering life sentence prisoners, Parliamentary questions (about 600 per annum), briefings on incidents, appointment of members of Board of Visitors, over 4,000 letters from Members of Parliament, media reports and so on.

Learmont concluded that: "The Prison Service is a politically sensitive area and ministerial involvement is bound to be relatively high." The above list of issues indicates that the Framework Document was drawn up with precisely that in mind. The attempt to separate policy and operational issues in politically sensitive services is clearly fraught with difficulties and brings into question the very concept of separation.

## Relationship between the agency and the Home Office

The Government has attempted to argue that Ministers are **accountable** for agencies but not **responsible** for their actions, unless of course they achieve some 'customer success' with a Citizen's Charter Mark award.

## Prison Service release of prisoners scandal

In August 1996 the Prison Service suddenly announced that the law regarding the

treatment of the time spent on remand and the length of sentence had been misinterpreted for 30 years. It released 537 prisoners in two days but was halted by the Home Office Minister Michael Howard facing a barrage of criticism. The Probation Service had not even been informed of the release of prisoners.

A few weeks earlier a Conservative Party political broadcast on television had claimed that the Labour Party was “soft on crime” and that they would “let them out”.

The issue is whether the time spent on remand is taken into account once irrespective of the number of sentences or for each sentence, when offenders are serving several consecutive sentences. In these circumstances about 500 prisoners would be eligible for immediate release and a further 4,000 would have their sentences reduced. In July 1995 the Prison Service informed Ministers that there were legal challenges over the length of sentences but the Government eventually won these cases and none involved consecutive sentences. A working party was set up and the Government planned to introduce legislation to clarify the guidelines in Autumn 1996. However, on 15 August the Prison Service issued new guidelines. The Prison Service claims to have notified Government Ministers that prisoners were to be released. At the time of writing the Home Secretary has ordered an inquiry. This is another classic example of the danger of trying to separate policy and operational matters.

The first objective in the Prison Service's Framework Document is to “...keep prisoners in custody” and has a key performance indicator as “....the number of escapes from prison establishments and from escorts”. Presumably, since the Prison Service freed the prisoners, the performance measures in 1996/97 will not be affected because they do not fall into the ‘escape’ category! The fact that the Prison Service took it upon itself to open the gates and release many long serving multiple offenders before completing their sentence will not be recorded in the Prison Service's performance record.

## Performance of the Pensions Agencies

Three pension agencies were set up in 1992/93:

**NHS Pensions Agency** (collecting contributions and providing pensions to 1.4m National Health Service staff).

**Scottish Office Pensions Agency** (pensions service to Government departments and teaching staff in Scotland).

**Teachers Pensions Agency** (similar service for teachers).

The Teachers Pensions Agency was privatised in 1996 to Capita Group PLC. However, the performance data examined relates to the three year period 1992/93 to 1994/95. The performance measures raise a number of issues:

Firstly, although the three agencies perform very similar services there are few common measures or standards to assist comparisons.

Secondly, all the performance measures for the NHS Pensions Agency are ‘clearance standards’ setting targets for processing awards within time limits. This is a very one dimensional view of quality of service.

Thirdly, the agencies had 4, 5 and 4 targets respectively for 1995-96 which hardly constituted a rigorous approach. Accuracy targets were set at 95% for one agency but it consistently achieved 97%-98%. It could appear that the target was too low anyway - getting 1 in 20 pensions incorrectly assessed is not likely to be a publicly accepted standard.

## Performance of Social Security Agencies

The Social Security Contribution Agency and the Benefits Agency were both established in April 1991. The Contributions Agency has achieved most of its targets in the 1991-95 period. “What these results actually tell us about the success of Next Steps is however limited. They do tell us that the agency has stayed within budget and has achieved efficiency savings but beyond that all the results tell us is that the agency has successfully been rectifying previous shortcomings by identifying and collecting outstanding arrears...results tell us nothing about the effectiveness of the agency in keeping accurate

national insurance contribution records or in providing a good quality of service to customers.” (Greer, 1994) Additional targets have been introduced but the substance of the point remains valid.

For most people one of the key means of assessing the performance of the Benefits Agency would be what proportion of people entitled to benefits actually received them. However, the Benefits Agency has no such performance measure. At a hearing of the Treasury and Civil Service Committee the chief executive of the Benefits Agency was asked how a target of 27% of lone parents on income support to receive maintenance was determined. Back came the answer that “...all the targets take into account previous performance and are estimates of what we think is likely to be achieved during the course of the year.”

## Examples of performance targets in other agencies

### The Compensation Agency

The Compensation Agency became an agency in April 1992. It is responsible for administering the compensation schemes in Northern Ireland under criminal injuries, criminal damage and emergency provisions legislation.

“The Agency achieved 12 of the 15 key performance targets set for 1994-95. The failure to reach the remaining three, reflects the change in circumstances resulting directly from the paramilitary ceasefire of Autumn 1994 which meant that there was a large reduction in claims, particularly for criminal damage and emergency provisions compensation.”

The three missed targets cover the **number** of criminal injury, criminal damage and emergency provision claims cleared annually. This is an example of the futility of numerical or volume targets covering ‘social disaster’.

The Agency missed its ‘target’ of Criminal Damage Claims clearance in each of the three years but since it has no control over the flow of such claims its relevance to agency performance must be questioned. Equally, the big reduction in claims should enable the Agency to radically improve its other performance targets ie reducing the time taken to process claims. The Agency does note that its unit costs will rise.

### Reporting performance in the Valuation Office

The annual Next Steps Review gives a partial picture of agency performance citing only the key targets. For example, the Valuation Office, an agency of Inland Revenue with 4,550 staff and an annual budget of nearly £190m, operates a network of 112 local offices providing valuation and estate surveying services to public sector bodies. The 1995 Next Steps Review showed 10 performance targets with the results over a three year period. It reported that 20 out of a total of 30 targets had been achieved. However, a Next Steps review of the agency reported that it had delivered only 59% of its key targets in the 1991-95 period and 71% of other targets. Further analysis of the appendices of the report provided more detailed information in Table 3.2. (Report of the Review of the Valuation Office as a Next Steps Agency, Valuation Office, December 1995) Despite the fact that the report shows only a 43% success in achieving targets, of which only 11 out of 68 concern quality of service with only a 54% success rate, states that the Valuation Office “...had established an impressive track record since its formation as an Agency”. This is not a criticism of the Agency or its staff but an illustration of limitations of performance measures and their potential abuse to promote other policies. We have no evidence to show that the Valuation Office was ineffective or inefficient before becoming an agency.

Table 3.2 **Valuation Office performance**

Key Targets	No of targets	No achieved	% success
Casework volume	17	7	41
Financial performance & efficiency savings	8	8	100
Quality	11	6	54
Unit cost indices (set at 100)	19	3	16
Productivity	8	5	62
Operational – appeals outstanding	5	0	0
Total	68	29	43

Source: Report of the Review of the Valuation Office as a Next Steps Agency, Valuation Office, December 1995.

### **Student Awards Agency of Scotland**

The agency started in April 1994 and has four main targets. It achieved the first – 91% of application forms processed within 28 days of receipt compared to a target of 75% (students might consider this a low quality target) and it achieved the 95% requirement to deal with general correspondence within 15 working days of receipt. However, 100% targets were set for responding to complaints within 14 calendar days and responding to all Chief Executive correspondence within 15 working days but performance was only 13% and 57% respectively.

This agency substantially exceeded its own, low-level performance targets, but failed miserably, relative to other targets set at 100%.

## **Other issues**

### **Responding to Parliamentary questions**

Many Members of Parliament have complained of the long delays and inadequate answers given to Parliamentary Written Questions. MPs have traditionally sent these to Ministers but have been generally passed onto agency chief executives for a reply. MPs complain that they are often told that “...the information is not held centrally” which means that they must then write to each agency (each written reply costs an average £100 – Michael Heseltine, House of Commons written reply, 31 October 1994) or that “...it could only be gathered at disproportionate cost”. In addition, many MPs believe that Parliamentary Questions should be answered by elected Ministers and not by officials.

## **Agency performance in 1995-96**

The difficulties in comparing annual agency performance persist. The 1996 Next Steps Review (Cabinet Office, March 1997). 1,091 key performance targets were examined in 109 agencies for 1996-97 but less than 600 “can be compared directly with those for 1995-96 in terms of their numerical value.”

The review concluded that:

- overall performance had declined from 83% in 1994-95 to 79% in 1995-96. Last years report identified the percentage increase in quality, financial, efficiency and volume or sales in addition to the overall performance but these are missing from the 1997 report;
- in a comparison of performance on the previous year, 49.1% of agencies did better but 41% worse and 9.9% the same;
- 14 agencies (out of 109 included in the analysis) failed to achieve at least half their key performance targets;
- 37% of targets were higher than the previous year (although there is no information regarding the size of the increase nor the relative importance of the targets);

- one third of agencies having less than a quarter of their targets at a level which is numerically more testing than actual performance the previous year;
- 1 in 8 had at least 80% of comparable targets set at a more challenging level than its performance the previous year.

Eight agencies achieved 80% of their targets in 1995-96 "after having been set at least 80% of the comparable ones at a numerically more stringent level". The eight agencies represent 6.4% of the total number of agencies but only 0.9% of the total staff. Another eight agencies "hit only half their targets, or less, in 1995-96 after no more than half their quantified comparable targets had been set at a more stringent level". They included the Social Security Child Support Agency, Companies House, NHS Pension Agency, Public Trust Office and the Patent Office. They represent the same proportion of agencies but employed nearly three times more staff than the agencies which had achieved their targets..

Table 3.3: **Agencies achieving targets in 1995-96**

Agency	No of staff
Central Office of Information	415
Civil Service College	250
Defence Animal Centre	185
NHS Estates	135
Queen Elizabeth 11 Conference Centre	55
Registers of Scotland	1,075
UK Passport Agency	1,555
Wilton Park	30
Total	3,700

Source: Next Steps Agencies in Government Review 1996, The Stationery Office, 1997.

### **Benchmarking**

The Government introduced benchmarking of agencies against private sector performance and some 30 agencies have taken part in a pilot project using the Business Excellence Model developed by European Foundation for Quality Management. Nine criteria are used:

- leadership
- policy and strategy
- people management
- resources
- processes
- customer satisfaction
- people satisfaction
- impact on society
- business results

Agencies used the British Quality Foundation's ASSESS Rapidscore self-assessment methodology which compared their performance with standards set by the UK Quality Award winners. Agencies only exceeded the private sector average in customer satisfaction and were below in all other criteria. Benchmarking has some benefit between comparable services and organisations, however, crude comparisons between public and private sectors only serves to reinforce the efficiency agenda.

## Summary of key issues and recommendations

- The setting of performance measures and targets has played a key role in the justification and success of agencies. The Government is using agency performance measures to show how successful the agency model is in providing better services more efficiently. But these measures are often selective, superficial and provide little concrete evidence to support the claimed advantages of the agency model.
- Performance measures must cover a far wider range of measures including the effectiveness, equality and efficiency of service delivery, employment and environmental policies, and adopt social and economic auditing. The genuine difficulties of measuring performance also needs to be regularly and publicly acknowledged.
- It is very important to establish comprehensive criteria for assessing performance based organisations at the outset. Valuable resources need to be directed at improving the quality of services rather than the performance of indicators.
- The Prison Service highlights many of the problems of enforcing a strict separation between purchaser and provider functions. It also brings into sharp focus the consequences of the selective use or mis-use of performance measures.
- There should be certain preconditions which should include:
  - no market testing
  - no threat of privatisation
  - comprehensive training and career development programme

A full evaluation of agencies will only be relevant when they are free of certain pressures.



## Part 4

# Contracting, privatisation and fragmentation of government

### Introduction

This chapter looks at a number of key developments in terms of the agency model in Britain and the broader implications of competitive tendering:

- ★ Competing for Quality and market testing
- ★ Transaction and public cost of tendering:
- ★ Privatisation of agencies
- ★ Implications of the Private Finance Initiative for agencies
- ★ Management consultants move into agencies

### Competing for Quality and market testing

The Government has been committed to market testing in Government departments and the National Health Service since the early 1980s. Local government has a slightly different version of competitive tendering, Compulsory Competitive Tendering (CCT), under which local authorities are required by law to put defined services out to tender according to a Government timetable. Since the early 1990s, the Transfer of Undertakings Regulations (linked to a European Union Directive) has required the transfer of staff from one contractor to another to maintain existing terms and conditions, when work is contracted out. Most contractors heed the regulations for 6-12 months. There are also many loopholes.

Following the White Paper *Competing for Quality* (Cmd 1730, November 1991), the Efficiency Unit was required to set overall market testing targets for each department which were published in the *Citizens Charter: First Report* (Cmd 2101, November 1992). This also covered the work of agencies. The total value of activities to be tendered was £1,449m involving 44,250 staff. The report referred to savings being “....typically around 25% of the original cost” and stated that “The objective of market testing is to promote fair and open competition so that we can achieve the best value for money and for the taxpayer.” The annual compulsory market testing programme was terminated by the 1994 White Paper, *Civil Service: Continuity and Change*, which stated that “....less detailed central oversight” was needed. Departments and agencies would in future “....prepare broader efficiency plans .....which best suit their own circumstances.”

The 1993-94 market testing programme identified a further £830.3m of activities covering 35,000 jobs. The programme accounted for about 11% of central government running costs and 14% of civil servants.

One year later cost savings had shrunk to “an average 20%” (Market Testing Bulletin, Special Report, Cabinet Office, January 1995). However, the savings figures were distorted because they annualised one-off costs in accordance with Treasury practice. This procedure has the effect of substantially reducing the cost of management consultants, departmental set-up and tendering costs and the cost of redundancy payments. This is only a paper exercise because the expenditure relating to these items will have been borne at the time they were incurred. The ten year period is used irrespective of the length of the contract and since the average contract is normally 4 years, the same exercise will be repeated three times over a ten year period, assuming the work is retendered after four and eight years.

### Competing for Quality programme

The emphasis on reducing staff numbers or 'staff savings' as they are described, is illustrated by the Competing for Quality programme under which the Government claims that between 1 April 1992 and 31 March 1995 some 69,283 staff were covered by the programme resulting in 20,186 staff leaving the Civil Service. The facts reveal that 8,262 staff left the Civil Service, not 20,186. The remaining 11,924 jobs were not abolished but transferred primarily to private contractors with the Civil Service still paying for these jobs through contracted services budgets rather than the directly employed staff wages budget. Table 4.1 also includes the effect of reviews carried out in 1995-96. It shows the net effect on jobs was 13.3% loss in 1995-96 compared to 11.9% in the preceding period.

Table 4.1: **The effect of Competing for Quality Reviews on civil service staffing**

	1992-95	1995-96
Total posts reviewed	69,282	76,289
Staff leaving the Civil Service	20,186	14,380
of which:		
TUPE* transfers to contractors	11,681	4,187
Non-TUPE transfers to contractors	243	38
Total transferred to contractors	11,924	4,225
Staff working elsewhere in the Civil Service	14,579	3,721
Staff remaining in post	34,518	58,188
Actual change	8,262	10,155

Source: Special Reports, Government Opportunities, 27 June 1995 and November 1996.

\* TUPE: The Transfer of Undertakings Regulations in Britain, implementing European Union legislation, requires the transfer of all staff with existing terms, conditions, agreements and trade union recognition where a transfer is deemed to occur between employers.

The review of agency Efficiency Plans for 1996-97 reveals that the Competing for Quality programme had covered departmental and agency activities to the value of £3.6bn between 1992-96 and a further £1.4bn are to be covered in 1996-97. 'Savings' are now listed under a vaguely specified heading 'expected gross annual savings'. It is transparent that costs have not been taken into account, there are no audited figures and they are based on the unreal assumption that first year savings are repeated annually. It would appear that the Government does not know the costs of the Competing for Quality programme because the tables or forms (Annex F, Guidance for the Development & Use of Efficiency Plans, 1995) which departments and agencies have to complete annually, contain no reference to costs.

It is important to note that 'efficiency savings' under the Competing for Quality programme cover:

- \* abolition of a service or activity
- \* privatisation
- \* strategic contracting out
- \* market testing
- \* internal restructuring

The claimed 'expected gross annual savings' of 17.8% in 1995-96 must be assessed in this context. Efficiency has been so broadly defined that it is impossible to determine the level of genuine improvements in managerial and service efficiency. Not surprisingly, no information is available on the impact of these programmes on the effectiveness, equity or economy of service delivery by agencies.

## Transaction and public cost of tendering: The savings myth

Agencies incur three types of transaction costs;

**Transitional costs** involved in setting up the agency, management consultants' fees, costs associated with preparing specifications, evaluating tenders and the market testing process. Advisers fees incurred in privatisation are another cost.

**Periodic costs** incurred in three and five yearly reviews and revising structures and systems as a result of changes in Government policy regarding agencies or the establishment of new agencies within the same department.

**Permanent costs** in respect of additional costs of controlling and monitoring agencies and contracts and the loss of economies of scale with the duplication of personnel, financial and some support services.

There has been no analysis of the cost of the agency programme, nor has the government made any claims about the agency model 'saving public money'. All the claims about 'savings' have centred on the Competing for Quality programme, launched in 1991, covering prior options reviews which resulted in internal restructuring, privatisation and market testing. The latter accounted for over 90% by value of this programme and has been the continuing focus of the costs and savings debate.

Over the last decade the Government has consistently claimed that CCT and market testing produced cost savings of **20%-25%**. The 1995 White Paper, *Civil Service: Taking Forward Continuity and Change*, was still making the claim of "...average cost savings of 20%". However, this figure was never substantiated by research but was widely quoted as fact. The OECD stated boldly that "...the UK, for example, has obtained typical savings of 25 per cent from its market testing" (*Governance in Transition*, OECD, 1995). In fact the Cabinet Office were still issuing press releases on the 18 June 1996 claiming average 24% savings.

### Other study findings

The 1996 Efficiency Unit Study also concluded:

- \* nearly 20% of market testing and strategic contracting out projects had expected savings of less than 10% (para 3.8 Efficiency Unit, 1996)
- \* the savings figures "...may conceal some hidden costs in addition to the process costs" (para 3.19 Efficiency Unit, 1996)
- \* The main source of savings were new working practices. "We found remarkably little difference in the source of savings between private sector suppliers and in-house teams. This casts doubt on the widely held presumption that the private sector is able to bring about efficiencies in ways the public sector cannot." (para 3.18 Efficiency Unit, 1996) It could, of course, also reflect the adoption of the commercialisation approach to tendering by in-house teams.
- \* the savings "...available immediately were significantly below the expected levels". One major department's review of its Competing for Quality programme found that 30% of expected cost savings were not realisable in the short term.
- \* The average annual tendering costs of an in-house win is 9.2% compared with 12.3% for contracts won by private contractors.
- \* Projects with an annual cost below £250,000 should not be put out to competition and those between £250,000 and £500,000 should be looked at critically to see if an alternative approach can provide better value for money. Since 45% of the Competing for Quality programme covered services valued at less than £500,000 this means that the programme should never have been carried out. A number of recommendations referred to measures to reduce the cost of tendering.

Table 4.2: Fact or fiction? Claimed market testing savings 1986-92

Year	Value of activity tested (pretest costs) £m	Level of savings £m	Savings as a % of pretest value
1986-87	39.6	9.4	23.7
1987-88	32.3	8.1	25.1
1988-89	47.0	13.0	27.6
1989-90	29.0	7.4	25.5
1990-91	43.4	12.5	28.8
1991-92	44.3	12.9	29.3
1992-93	1072.3*	217.8	20.3
1993-94	716.4	192.6	26.9

Source: Competing for Quality Policy Review, HMSO, 1996.

\* Atomic Weapons Establishment excluded

The 1996 Efficiency Unit study makes the previous claims of market testing savings ranging from 20.3% - 29.3% as somewhat fraudulent.

### Analysis of the public cost of competitive tendering

There have been two other major studies into cost savings, both in local government where tendering has been more rigidly imposed with a higher volume of contracts.

The Department of the Environment funded a major study into CCT which was carried out by the Institute for Local Government Studies, University of Birmingham. Based on 40 case study local authorities, it concluded that cost savings were, on average, 6.5% when the costs of the service after competition were compared with those before. This was accepted by the Government and detailed in the DOE's Annual Report on CCT for 1993 (*CCT and Local Government*, DOE, 1994).

Costs were examined over three tranches of competition between 1989/90 and 1991/92. The study also concluded that "...the figures show, on average, a reduction in cost following competition, partly from productivity changes and partly from changes in staff pay and conditions."

A previous study carried out by the Centre for Public Services for Manchester City Council had also identified savings of the same order. Both these studies did note that the full costs of preparing for CCT, such as officer time, had not been included in the cost analysis.

The national study of competitive tendering in local government for the Equal Opportunities Commission provided, for the first time, detailed employment data on the effects of tendering in 39 local authorities including all the major cities. This data was used as the basis for an additional analysis by the Centre for Public Services. This concluded that there were no savings but a **national cost of £126m per annum** for the four services covered by the research. This is equivalent to a **16% cost** of CCT.

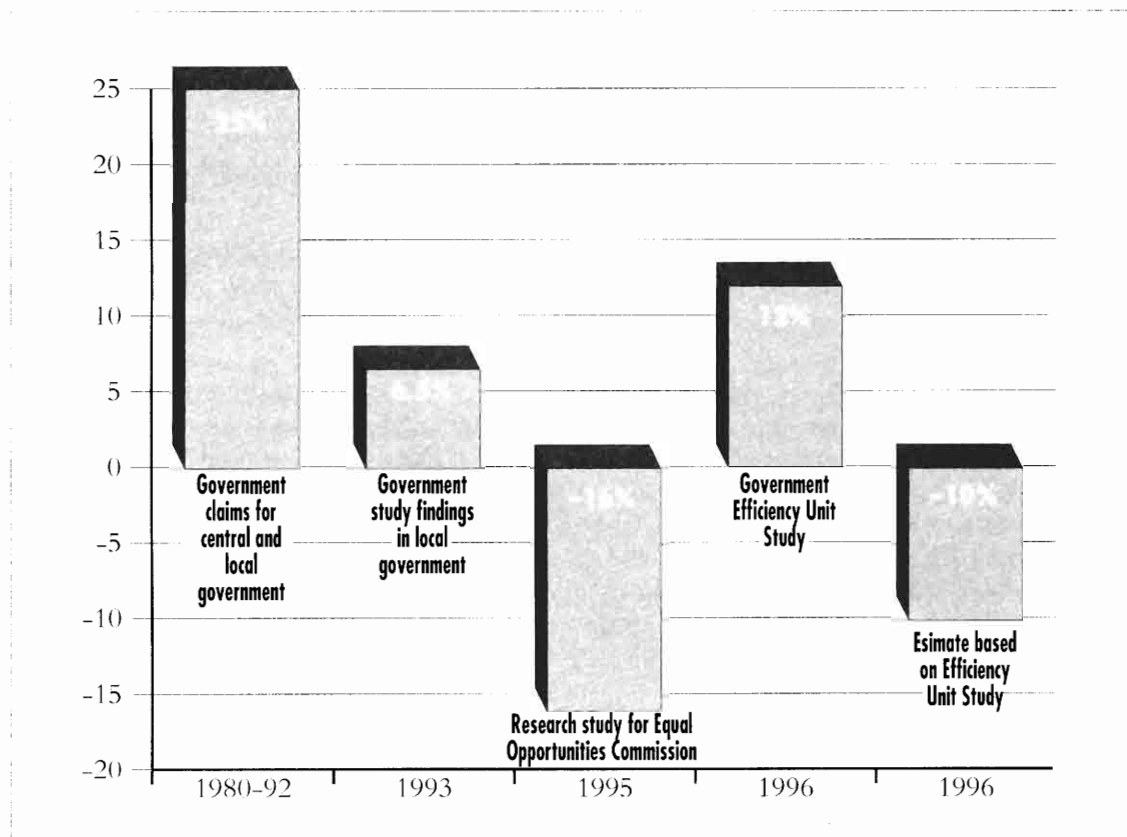
### The rapid decline in cost savings claims

The rapid decline in the savings from competitive tendering are shown in Chart 4.1 below. It highlights the difference between unsubstantiated Government claims of 25% savings and the evidence from research studies which reveal substantially lower savings or public costs.

In order of sequence, the Government-funded University of Birmingham study found average savings of 6.5% in local authority budgets in 1993; two years later the Centre for Public Services study for the Equal Opportunities Commission, the only study which examined the employment impact and public costs in detail, revealed that tendering was a cost to taxpayers with a - 16% impact on public costs; in 1996 an internal study by the Efficiency Unit, based on unaudited data and limited to the effect on departmental budgets, found 12% average savings; finally if the principles and findings of the Centre for

Public Services / Equal Opportunities Commission study are applied to the Efficiency Unit findings, this produces a net impact of - 10% in the public cost of tendering.

Chart 4.1: **Decline of competitive tendering cost savings**



Source: Centre for Public Services, 1997.

This research was based primarily on Government data. It also made conservative estimates of the number of staff claiming benefits. For example, only 24% of those who lost their jobs claimed unemployment benefit, a third of part time workers suffered an average three hour cut in working hours and half the workforce had an average 5% cut in earnings. It identified five important ways in which competitive tendering has an impact on local and central government income and expenditure.

Firstly, on the additional cost of benefits paid to those who claim unemployment and housing benefit, council tax (property tax) rebates or receive low income support. There are other costs of unemployment which were identified and taken into account.

Secondly, the loss of jobs, cuts in working hours and reductions in pay and conditions reduces earnings resulting in a loss of tax income and National Insurance payments (social security) to the Government.

Thirdly, the impact it had on the local economy.

Fourthly, increased income from Corporation Tax paid by private contractors. However, this had only a marginal impact on Government income, amounting to a mere £0.44m in the case study authorities or £4.6m nationally.

Finally, lower costs should in theory reduce council tax. The transfer surpluses from some Direct Service Organisations to local authority general funds is treated as if authorities were drawing on their balances and does not affect the level of Government grant. It is not additional income for local authorities.

**The net national cost of CCT in the four services was £126.1m.** This sum would have been larger if three other services subject to CCT (grounds maintenance, vehicle maintenance and street cleansing) had been included – these services have a much smaller proportion of part-time workers and hence the indirect cost to the government would have been proportionately larger.

The Government is, in effect, subsidising CCT. Although local authorities' budgets produced £124m 'savings', central government was responsible for 97% of the £250.1m costs. This can be expressed in another way.

### **Every £1m of CCT 'savings' costs the Government and the public purse £2m.**

These are recurring costs. If these costs applied since the start of Compulsory Competitive Tendering in August 1989 the net cost over the 6 years to August 1995 will be **£755m** (based on 1993/94 prices).

Competitive tendering is not 'saving' public money which could either be invested in other services or used to reduce Government expenditure. Whilst public sector employment is reduced by contracting out and private sector employment increased, the latter is in effect being subsidised by the public purse. If there are no savings but substantial costs to CCT, then there can be few, if any, macro-economic benefits of this policy. There is no evidence, at least in the four manual services examined, that CCT is providing highly profitable opportunities for the private sector which may lead to benefits for the economy as a whole. Far from increasing consumer spending, CCT reduces it through lower earnings.

### **Efficiency Unit study**

The Government's latest attempt to quantify costs and savings are contained in a much delayed Efficiency Unit study, finally released in August 1996. Previous analysis of savings had been published in special issues of the Government's market testing bulletin.

The latest report focused on departmental costs and did not include wider costs to the Government or to the economy. Significantly, the study is based on 'expected savings' supplied by each department at the start of each contract.

However, the report states that "....actual savings varied from expected savings in 37% of cases" mainly due to changing requirements and reports ".....the failure of the specification to reflect the actual work required." This evidently "....highlights the highly theoretical nature of savings projections made at the time of evaluation."

So, despite a decade of market testing, the Government is unable to provide any evidence that 'savings' at the start of a contract are maintained over the contract period. Whilst specifications and the volume of work changes in some services, it is inconceivable that the required information is not available for at least a sample of contracts.

Analysis of the 1992-95 market testing programme is based on the following:

	£m
Contracted out	1,112
In-house win	520
Contracted out without in-house bid	209
	<hr/>
Total	1,841

The study concluded that the overall Competing for Quality programme process costs were as follows:

<b>One-off costs</b>	%
Central costs	2.6
Client side team	12.0
In-house bid team	9.9
<b>Ongoing costs</b>	
Contract management	4.8

When these cost are converted to an annual equivalent basis, the average process costs for market testing was 11% of the pre-test costs (figures 3 and 4, Efficiency Unit, 1996). The cost of the Competing for Quality programme is now estimated to be five times greater than the cost estimates only a year previously.

It is significant that the tendering costs have been spread over the length of the contract and the previous practice of calculating the present value of costs over a 10 year period, irrespective of the length of a contract, has been abandoned. However, this is still required in the evaluation of tenders both in the civil service, National Health Service and local government. It has the effect of reducing client costs which would normally be added to external bids, thus making private contractor's prices more competitive. But more importantly, the so-called savings have also been calculated by the same method. It assumes that tender price differentials are, in fact, savings and are achievable annually over a 10 year period.

Given that some £1,841m value of work was subjected to market testing in the 1992-95 period, this means that the annual cost of tendering is £202m. In other words savings will have to be over 11% before any financial advantage can be gained from competitive tendering. In fact, the Efficiency Unit report makes the same point: "...the implication of these figures is that any activity where potential savings are less than 10% is not likely to be worth putting to competition on cost grounds alone." (para 3.39)

It also states that the average expected saving from market testing is 23%, which, after taking tendering costs into account, produces an expected saving of 12%. However, the study suddenly adds another figure "...to adjust for possible double counting" which more than halves the cost of tendering to produce a range of net savings of between 12% - 17%.

On this basis, savings in service budgets in the Civil Service, were almost twice the level achieved from competitive tendering in local government which averaged 6.5%. The national analysis of the costs of CCT showed that this service budget 'saving' turned into an overall public sector cost of 16%. Comparisons are difficult because of the different structure of the respective workforces. There was a high proportion of part-time manual women low paid workers in the local government study. The Competing for Quality reviews, including market testing, covered a wider range of manual and white collar services, mainly full-time and better paid jobs. 32% were in office service, 11% in engineering and maintenance and a similar proportion in financial and legal services and estate management, and about 5% in a range of other services such as IT support services, training and personnel and technical services.

Unfortunately, there is no employment data available which would enable us to carry out a similar research to that done in local government. The public costs of tendering could be substantially higher although estimates about the uptake of benefits would probably be different. However, we have no evidence to indicate that there would be any substantial difference in the relative public costs of tendering. If this is the case, market testing does not produce **savings** of 12% as the Government claims but translate into net **an increase** of about 10%.

## The privatisation of agencies

### The continuing threat of privatisation

The Trosa study reported that a minority of chief executives actively promoted privatisation because they believed it was the only way they could obtain the necessary freedom. Although the issue of privatisation is supposed to be determined before an agency's Framework Document is prepared, in reality it is an ever present factor for many agencies. However, the study concluded that "....the threat of privatisation, real or imagined, works against improved performance." Most chief executives ".....perceived it as a constant threat that prevents them from doing their job properly."

### Privatisation examined in prior options reviews

The extent to which the privatisation option is built into the agency system is highlighted by the prior options review (see Part 1). The Inland Revenue has 27 executive offices (reduced from the original 35) operating on Next Steps principles. A three yearly review (now five yearly) was launched in 1994. In February 1996 the Inland Revenue issued a press release which stated that the review had ".....concluded that there is a continuing need for all of the Department's core functions and that the wholesale privatisation of the work of assessing and collecting tax would not be appropriate." (Inland Revenue Press Release, 29 February 1996). The first part of the statement is farcical, it apparently took three years for the government to decide that tax collection is an inherently government function. The second part of the statement shows how privatisation is forced onto internal departmental agendas despite the fact that there could be a political storm if the Government made a proposal for private contractors to take over assessing and collecting taxes. There are a number of reasons why agencies have been privatised:

1. Government policy: Senior management understands that proposals for privatisation will be supported and encouraged.
2. Agency Reviews: The prior options review requires each agency to examine the scope for and feasibility of privatisation.
3. Market testing: The Government's market testing programme requires agencies and departments to put an increasing amount of work out to tender. This leads to fragmentation and increased management costs. No doubt some managers will also claim that if the agency is to be subjected to various market testing procedures, the agency might as well transfer to the private sector. In other words, they consider that complete privatisation is better than being subjected to partial or fragmented privatisation.
4. Private sector management: The appointment of senior managers from the private sector also creates a degree of momentum towards privatisation. The Massey study (After Next Steps) asked Agency Chief Executives and senior managers what further reforms were necessary. Not surprisingly, they included greater commercial freedom and privatisation on the list of most frequently cited items. The privatisation option was more clearly stated in the Massey Report (13 interviews and a survey of agency chief executives) in contrast to TROSA (52 agency interviews) but a different methodology may have been a relevant factor.

### Method of privatisation

There have been two main methods:

- ★ Outright trade sale following advertisement and tendering process;
- ★ Contracting management and operation of an agency to a private contractor.

There have been no management or employee buy-outs of government agencies to date, unlike the Federal Government's Office of Personnel Management award of a contract to a new company, US Investigation Services Inc, formed by managers and employees under a Employee Stock Ownership Plan (ESOP). Most management and employment buy-outs in local government and bus services in Britain have been acquired by larger companies within the first two or three years of operation.



## Agencies privatised or in progress

Agencies which have been privatised, or are in the process of sale and identified in Table 4.4.

The more successful agencies are, the more likely it is that they will be privatised. The Chessington Computer Centre is one example. The 390 staff process the pay and pensions for over 330,000 civil servants. It had won all its market testing exercises in-house and achieved all the performance targets.

By early 1997 fourteen agencies had been privatised and a further five were in progress out of a total 400,000 staff employed by the agency's. Over 13,000 jobs were involved. Agencies had been acquired by many of the same firms which have dominated market testing and competitive tendering, for example, EDS, Capital Group and Serco. Privatisation also results in job losses, for example, 550 at HMSO.

Table 4.4: **Privatisation of Agencies**

Agency	No of staff £m	Sale price £m	Date of sale	Acquired by:
<b>Privatised</b>				
Accounts Services Agency	n/a		1995	CSL Group (Touche Ross)
Chessington Computer Centre	390		1996	Managers & Integris (Bull, France)
Custody Services	700		n/a	n/a
DVOIT	480		1993	EDS
Her Majesty's Stationery Office (HMSO)	2,700	£54m	1996	National Publishing Group (consortium led by Electra Fleming)
Laboratory of Government Chemist	265		1996	Consortium of management, Royal Society of Chemistry & 3i venture capital
Occupational Health & Safety Agency	110	£0.3m	1996	General Healthcare Group (Generale des Eaux, France)
Paymaster General	610	£22.5	1997	EDS
National Engineering Laboratory	250	(£0.2m)	1995	Siemens (UK)
National Physical Laboratory	670		1995	Serco Group PLC
Natural Resources Institute	465		1996	Consortium of Universities
Recruitment & Assessment Services	140		1996	Capita Group PLC
Teachers Pensions Agency	400		1996	Capita Group PLC
Transport Research Laboratory	415		1996	Transport Research Foundation
Total	7,595			
<b>Privatisation in progress*</b>				
ADAS	1,620			
Building Research Establish.	645			
Defence Evaluation & Research Agency				
Support Services Division	2,000**			
NHS Estates	135			
UK Passport Agency	1,555			
Total	5,955			
Total	13,550			

Source: Centre for Public Services, 1996.

\* Staffing levels at October 1996

\*\*estimate

### More sell-offs planned

It is widely expected that the Conservative Manifesto for the 1997 general election will include a commitment to accelerate the privatisation of government agencies. Companies House, Ordnance Survey, HM Land Registry, the Driver & Vehicle Licensing Authority, the Valuation Office and the Meteorological Office are believed to be included. They employ over 22,000 staff.

### Failures to privatise

Attempts were made to privatise Companies House and the Insolvency Service but both were stopped as a result of Parliamentary and trade union opposition and legal difficulties. The Government sought additional legislation, the Deregulation and Contracting Out Act 1995, which clarified legal issues connected with contracting out statutory and regulatory functions. The Government has now decided to contract out various Companies House services including the operation of the search centres in London, Edinburgh and regional offices.

### Sale of Property Services Agency

Although **not** a Next Steps Agency, the privatisation of PSA Building Management, part of the Property Services Agency, (a government department), provides some useful lessons. In May 1988 the Government announced PSA Services would operate as a commercial organisation. Eighteen months later the privatisation of PSA Building Management was announced, although the sale did not take place until 1993. The important points were:

- \* The period between the announcement of privatisation and actual sale was used to restructure PSA and reduce the workforce from 15,000 in April 1990 to 6,700 by September 1993. Some 3,000 staff transferred to other government departments, 1,000 left through 'natural wastage' and 4,300 were made redundant.
- \* PSA Building Management was sold with a guaranteed five year £400m fee income from the Ministry of Defence.
- \* The five sales raised a mere £10.4m cash although the real cost to the taxpayer was substantially greater given the cost of redundancies (£146.4m), advisers and sale costs (£21.7m) and post sale redundancy liabilities (a further £12.9m).
- \* The five organisations were acquired by leading engineering and construction consultancies including Serco Group PLC, W.S. Atkins Ltd, Mowlem Construction and Pell Frischmann enabling them to increase their share of the market and strengthen regional networks.

One of the organisations, Building and Property Management Services which had been acquired by a consortium of engineering consultants Pell Frischmann and the construction group Amec, was sold to Capital Partners for £84.6m in 1996. This represented a £70m profit for the consortium in just three years. At the same time WS Atkins, who acquired the PSA's North West operations based in Manchester and received a £11.5m payment for the sale, announced a £60m windfall profit.

## Public/Private Partnerships and the Private Finance Initiative

Private sector funding of infrastructure projects and public facilities through Public/Private Partnerships and the Private Finance Initiative (PFI) has included new buildings and equipment for agencies and government departments. All Government capital projects must first be tested for private finance under the PFI and only if there is no interest will traditional public sector capital funding be considered.

Under Public/Private Partnerships and the Private Finance Initiative a firm or consortia designs, builds, finances and operates facilities on long term service contracts ranging from between 7 - 35 years. The Agency or department pays the consortia for use of the facility and for supplying and managing support services. The capital costs are included in these costs but are not separately identified. Once the facility is built, the Agency pays a stream

of revenue payments over the contract period. No capital spending is involved, hence there is no immediate effect on public spending whilst the facility is under construction and government borrowing is unaffected. The cumulative impact of these revenue commitments is not currently a matter of concern to the Government.

Ownership of the facilities and equipment remains with the consortia. The Government's attitude is summed up by the following statement; "The taxpayer does not need to own hospital buildings." (*Risk & Reward*, PFI Panel, 1996)

Public/Private Partnerships and the Private Finance Initiative is operating across all public services including the Civil Service, National Health Service and local government. The Next Steps 1995 Annual Report records each Agency's involvement in public/private partnership projects.

### **Examples of agency and government department PFI projects**

**Department of Social Security:** A construction firm, Amec, was recently awarded a contract to redevelop the headquarters site in Newcastle upon Tyne and supply new accommodation on other sites in the city. Amec will manage and operate a facilities management contract in the buildings for 25 years. It is another route to enable contracting out support services. Andersen Consulting has a contract to design, install and operate new IT facilities for the National Insurance Recording System.

**Prison Service:** Several new prisons are being built under public/private partnership deals where private consortia design, build, finance and operate prison facilities.

**National Health Service:** Over 60 projects, mainly new hospital facilities, are currently at various stages of progress. These projects or partnerships will privatise the health service by stealth.

### **From contracting out to public/private partnerships**

A contract for the management and operation of the National Physical Laboratory, the leading centre for metrology (the science of measurement) was contracted to the Serco Group for five years in October 1995. Most agency staff transferred to Serco, who had also purchased some of the Laboratory's assets. In August 1996, the Department of Trade and Industry, which still owns the buildings, launched a Private Finance Initiative scheme for the redevelopment and management of the Laboratory's site in Teddington, Middlesex. The PFI contract will cover the design and planning of the redevelopment, maintenance and servicing of all buildings for 25 years, and "...there may also be opportunities for the contractor to develop some parts of the site for alternative uses." (DTI Press Release, 1 August 1996). This is just another route to almost complete privatisation because under the terms of PFI projects, the Government will cease to own the facilities and will pay the contractor for their use and upkeep in a service contract.

### **Implications for Agencies**

- ★ Potentially higher service costs. Private sector borrowing costs are 1 - 3% higher than public sector borrowing and 3 - 5% additional consultancy and advisers fees, plus private consortia profit margins of at least 10%;
- ★ More extensive contracting out: rather than individual services being market tested all support services will be included in a facilities management contract;
- ★ Loss of assets because under the PFI the work is a service contract and the ownership of assets will remain with the contractor;
- ★ A permanent division of agency staff between those directly employed by the agency and those by the PFI consortia;
- ★ Loss of jobs, casualisation and cuts in terms and conditions;
- ★ Loss of trade union membership for Civil Service unions (differing attitudes to recruiting and organising in the private sector);
- ★ Further pressure towards complete privatisation;
- ★ Loss of democratic accountability;
- ★ Increased and new user charges;
- ★ Dual use of facilities between private and public users.

## Management consultants move into agencies

The Efficiency Unit carried out an investigation into the use of external consultants by Departments and Agencies in 1994. They discovered that information on the use and expenditure on consultants was piecemeal and imprecise. Their own survey revealed that agencies and departments spent approximately £508m on external consultancy in 1992/93. A further £146m was spent on staff substitution, £1,979m on contracted services, £817m on research and £3,449m overall expenditure on external professional services. Expenditure on consultants increased to £865m in 1993-94.

Seven departments (Ministry of Defence, Transport, Employment, Trade & Industry, Social Security, Health and the Overseas Development Administration) and their agencies accounted for 85% of the expenditure on external consultants. 33% of management consultancy expenditure was in 'competition and purchasing', by far the single largest expenditure.

Table 4.5: **Public sector expenditure on management consultants (£m)**

Public sector	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
<b>Public sector</b>											
Central Government	27	41	51	77	105	135	137	123	140	170	137
National Health Service	-	-	-	9	18	26	39	75	99	65	38
Local Government	17	29	14	18	29	32	69	35	30	48	30
<b>Private sector</b>	162	218	291	390	609	729	780	765	807	899	1179

Source: Management Consultancies Association Annual Report 1995, The Government's Use of External Consultants, Efficiency Unit, HMSO, 1994.

A number of important trends in the use of management consultants can be identified from Table 4.5:

- a 528% increase in central government expenditure on consultants between 1985 and 1994.
- a 1000% increase in the National Health Service at the height of the reforms to create an internal market.
- a 318% increase in local government expenditure on consultants in the early 1990s, although it has since reduced to twice the 1985 level.

The investigation exposed the fact that there was no coherent policy or practice on the use of external consultants. The conclusions included the following statements:

- ★ "scope for significant improvement"
- ★ "We found few attempts to look first at what other Departments and Agencies have done, or to see if there were other, cheaper ways of tackling the problem. We found only limited examples of collaboration between Departments and Agencies facing similar problems."
- ★ "We believe that rather too many projects are let by single tender."
- ★ "It is unusual to find a properly monitored implementation plan. We could find only limited evidence of attempts to assess consultant performance, the benefits derived from the work or the overall value for money obtained."

It was also significant that the study found it almost impossible to identify any savings from the use of external consultants. It referred to the "...inaccessibility of information" and concluded that "...it is just not possible at present to track expenditure and savings across Government in a consistent way." They did identify annual savings of \$19.5m over a four year period although "...this is unlikely to be a complete picture".

This is a damning indictment of the agency model. No evidence was uncovered which showed that agencies either used consultants less extensively or adopted a best practice approach.

The study identified nine critical factors:

- \* seeing consultants as a potentially valuable if costly resource;
- \* using them only on matters of real importance to the organisation;
- \* using them only where management is committed to bringing about change;
- \* being clear why they are being used, and identifying the work that needs to be done;
- \* making sure that the problem cannot be solved in-house or in some other less expensive way;
- \* selecting the right individuals, at the right price;
- \* managing the consultants effectively, and working closely with them;
- \* implementing the results of their work;
- \* assessing the value for money derived, and implementing any lessons learnt at the end of the assignment.

The fact that the Efficiency Unit was required to make a series of substantive recommendations to increase control and accountability within Departments and Agencies on the use of consultants, reflects poor management practice. It is also clear that the fragmentation of departments into separate agencies and business units has made the problem more acute. The Institution of Professionals, Managers and Specialists (IPMS) report that “....few of the recommendations were implemented” although one Department, the Lord Chancellor’s, did produce guidance and criteria on the use of consultants as a last resort.

Management consultants are heavily involved in the privatisation of agencies. The Office of Public Service recently announced the privatisation of the Recruitment and Assessment Services (RAS) agency “...as a single viable business” which was preceded by advice from Coopers & Lybrand. KPMG was appointed as the financial adviser. The agency recruits senior civil servants including intelligence staff. A House of Lords Committee investigated the planned privatisation and considered it was “....undesirable and unnecessary” and a risk to national security. It found that there was “....no green paper, no white paper, no debate in parliament before the announcement, inadequate consultation with customer departments before the event and no consultation before the event with RAS’s staff.” (Financial Times, 19 July 1996).

There has also been a substantial increase in the use of consultants advising departments and agencies in legitimate tax avoidance schemes such as avoiding VAT, employee incentive schemes which avoid paying National Insurance and changing pension schemes to qualify for tax relief. Up to £3bn is being lost in tax receipts, prompting the Chancellor of the Exchequer to write to all departments stating that “there are not sufficient real-world efficiency gains to justify such activity. Tax advice should not be used simply to increase departmental resources by the back door, circumventing the normal public expenditure survey process, and reducing the Exchequer’s tax receipts”. (The Guardian, 15 February 1997).

## Summary of key issues and recommendations

- Efficiency savings are so broadly based (covering abolition, privatisation, contracting out, market testing and internal restructuring) and so vaguely defined (costs not identified, unaudited figures, assumption of recurring annual savings) that they are virtually meaningless. It is impossible to identify genuine improvements in managerial and service efficiency.
- The agency model has facilitated the implementation of the Government’s market testing programme.
- The claimed savings from market testing have not been proved and there is evidence from local government that public costs increased between 10% - 16%.
- The Government Private Finance Initiative has made the British agency model an easy vehicle for the government to privatise services since they are already packaged with separate accounts, personnel and support services.

- The British agency model is imposing 'management or government by contract' across government departments. The full political, managerial and cost consequences of this policy have not been fully assessed or considered. This approach also requires new skills and practices, including trade union involvement, for which there has been only limited recognition.
- The extensive contracting with consultants is likely to reduce the ability of the Civil Service to respond to policy developments.

## Part 5

# Impact on Employment Policies and Trade Unions

### Introduction

This section examines the impact of agencies on employment policies and covers:

- ★ Changes to pay bargaining
- ★ Agency employment policies
- ★ Impact on trade union organisation and negotiations

### Changes to pay bargaining

#### Agency responsibility for pay and conditions of service

The Civil Service had national pay agreements and national pay bargaining although agencies were permitted to make additional payments with respect to recruitment and retention, bonus and performance related pay. In 1995, twenty one agencies, in addition to those in Inland Revenue and Customs & Excise, took over delegated responsibility for pay and conditions of service. All agencies and departments have had responsibility for pay and grading, except for senior staff, from April 1996. There are now several hundred bargaining units with different performance pay appraisal systems. Although there has been a divergence in appraisal and grading systems, this has not to date led to big variations in civil servants earnings. Many of these negotiations are still carried out nationally in groups of bargaining units. The Treasury retains overall budgetary control and will seek to ensure that any changes to terms and conditions are consistent with public expenditure guidelines and can be justified in 'value for money' terms.

A civil service trade union, the Institution of Professionals, Managers and Specialists (IPMS) reports that delegation was implemented in a short period of time which led to immense local difficulties, complicated by the lack of coherent professional support and training for staff, exacerbated by the division of responsibility for pay, personnel and job evaluation between the Treasury and the Office for Public Service. It concluded that "....the almost universal response across the service has been to buy in expertise either by recruiting staff directly and/or by hiring management consultants to advise on pay delegation". (IPMS, 1996).

#### Individual contracts

The existing system of grades has been replaced with a nine-band system and senior staff are allocated to a particular post based on a new job evaluation system. The pay bands cannot be varied by agencies or departments but they can combine the pay bands. Annual salary reviews will be based on individual performance.

Individual contracts have been introduced for the higher grades in the Civil Service and also came into effect in April 1996. Although most terms and conditions will be standard at this date, the system could lead to wide variation in the future. There is also a trend towards fixed term contracts.

Restructuring could lead to unified grades in the core Civil Service with market-dominated salaries in the non-core areas such as support services employing a higher proportion of women and lower paid staff.

#### Government public sector pay policy

Pay increases have to be met from efficiency 'savings'.

Other current issues:

- ★ It is still unclear whether the Treasury and/or departments will permit the use of trading fund surpluses to fund increased pay awards. If not, then the Treasury may claim that the performance target process is at fault.

\*It is also uncertain what action will be taken, if any, to differentiate pay rates between agencies in the same department and between those in the regions and those in central London.

## Agency employment policies

### Employment policies in Business Plans

The impact of budget cutting on civil service employment and the lack of employment policies in the annual agency Business Plans was discussed in Part 2.

### Equal opportunities

The proportion of women in the Civil Service has risen from 47% of staff to 51%, however, they are concentrated in the lower grades, as the data in Table 5.2 illustrates. Women account for just 9% of staff in the top four grades but 69% of the junior grades of Administrative Officer and Administrative Assistant. Recent changes in the Civil Service workforce are included in Tables in Part 2.

Table 5.2: **Women in the Civil Service**

Grade in order of descending rank	Proportion of women	
	Full-time%	Part-Time %
SCS level	12	55
Level 6	14	63
Level 7	18	84
Senior Executive Officer level	16	79
Higher Executive Officer level	22	86
Executive Officer level	43	96
Administrative Officer level	63	97
Administrative Assistant level	63	94

Source: Civil Service Statistics 1996, Government Statistical Service, 1996.

Women of ethnic minority origin were concentrated in the lower grades - 81% are in the lower grades. Although 5.4% of the non-industrial Civil Service staff are of ethnic minority origin (compared to 4.8% for the economically active population) only 1% of staff at Grade 7 and above are from ethnic minorities. The Civil Service employs 8,500 registered disabled staff, representing 1.6% of all staff, and a further 6,500 declared disabled people.

Agency compliance with Civil Service codes of practice has been an issue, particularly in the smaller agencies with limited personnel staff. The Civil Service unions are concerned that little effective monitoring is being carried out and many agencies are putting the 'business interests' of agencies first - which is precisely what has happened in local authority Direct Service Organisations. The fragmentation of the Civil Service, combined with delegation of pay and conditions of service, could lead to an erosion of equal opportunities. The commitment to equal opportunities by senior management in the smaller agencies is also questioned by the trade unions. The Civil Service trade unions have demanded that the Efficiency Unit fund an independent study into the equal opportunities impact of market testing, similar to that carried out by the Centre for Public Services for the Equal Opportunities Commission (1995) but this has been firmly resisted to-date. Equal opportunities was addressed in some of the agency Business Plans but this was fairly superficial. As noted in chapter 2, most plans had little or no content on employment matters and the focus of service delivery firmly on 'customers' with a few general references to equal opportunities.



## Chief Executive pay increases

Agency status has led to large pay increases for chief executives. The sample shown in Table 5.1 indicates a range of between 26% and 200% salary increases between 1990-91 prior to the agency being formed and the 1993-94 pay levels following the establishment of the agency.

Table 5.1: **Chief Executive salary increases** (1990-91 and 1993-94)

Agency	Previous Head of Civil Service Dept	Chief Executive	% increase
Building Research Estab.	41,300	61,529	49
Central Statistical Office	76,060	114,063	50
Defence Research Agency	59,020	147,238	150
Meteorological Office	53,100	82,000	54
N. Ireland Driver & Vehicle Testing	22,761	40,107	76
Vehicle Inspectorate	30,644	53,854	76
Prison Service	73,216	133,230	82
Highways Agency	79,396	100,000	26

Source: 'The Blank Checks of Government', Gerald Kaufman MP. The Guardian, 30 December 1994.

Note: Figures do not include performance bonuses

## Impact on trade union organisation and negotiation

### Consultation

The Civil Service has had a long tradition of joint consultation, originating in the Whitley Committee in 1918, in which national, regional and local consultative committees of trade union and employers representatives were established. They have a wide ranging power to cover issues affecting staff. However, this consultative structure has been under pressure as a result of the devolution of management responsibility, the formation of agencies and the Government's hostile attitude to trade unions and subsequent restrictive legislation. These changes have led to a number of developments:

- \* An increasing loss of facility time for shop stewards and trade union officers and for union meetings.
- \* Intensification of work, particularly due to the demand for efficiency savings - each agency has a specific efficiency performance target.

### Trade union response to market testing

The threat of market testing with the potential loss of jobs and/or transfer to a private contractor tested trade union strategies. Although the Government's Competing for Quality programme set targets, agency and departmental management are responsible for selecting which services are to be market tested. The Civil Service market testing process is supposed to be a two-stage process in which the first stage examines the existing service and the scope for change and 'savings' and only then should a decision be made about whether to proceed to put work out to tender. Trade unions could cooperate at this stage in the hope that sufficient efficiency savings gained in the first stage would persuade management not to proceed with market testing. Whilst this strategy has worked in some cases, there are many where it has not. Furthermore, there are many examples where management decided that no in-house bid was to be prepared, thus guaranteeing contracting out.

The market testing 'rules' for central government are open to management manipulation (both positively and negatively), in stark contrast to the legislative requirements in local government where similar flexibility would be denounced as 'anti-competitive behaviour' leading to Government intervention and an order to retender.

Since the early 1990s the Civil Service unions have campaigned hard to ensure that the Transfer of Undertakings Regulations (linked to a European Union Directive) are applied in market testing. The regulations are intended to ensure that all staff are transferred to the new employer when work is contracted out. Existing terms and conditions, including union recognition and negotiating arrangements, transfer lock, stock and barrel. The British Government tried to argue that the regulations did not apply in the public sector but it now accepts they do.

## Summary of key issues and recommendations

### Issues for trade unions

- Agencies have been operational in Britain since 1989 but have had responsibility for pay and conditions of service since April 1996. The historical consultative arrangements between management and trade unions has come under increasing pressure as industrial relations have been decentralised.
- Chief executives of agencies received substantial pay increases whilst staff pay has been subject to Government pay restraint policy and funding from efficiency savings.
- Many agencies are giving priority to their 'business interests' which combined with further fragmentation of the Civil Service and delegation of pay and conditions of service, could lead to the erosion of equal opportunities. Women and black and ethnic minority staff are concentrated in the lower grades.
- What changes are needed in order to ensure effective union organisation and representation in agencies at national, regional and local level?

## Part 7

# Conclusion

The establishment of agencies in Britain has provided an important focal point in the drive to improve the quality and cost effectiveness of government services. However, the Conservative government introduced agencies in parallel with cuts in public expenditure, competitive tendering and privatisation which have influenced the costs and quality of government services. Major changes in information technology have also enabled the speed-up of administrative processes and facilitated organisational change. Competitive tendering, together with tight government cost controls, has significantly reduced national civil service employment levels.

As this report shows, the actual performance of British agencies has provided mixed results. In addition, the statistical information produced by the government can be described most accurately as inconsistent. While the setting of performance targets has played a key role in the justification for agencies, these measures are often selective and superficial. About two-thirds of the performance targets are not directly comparable with previous years. Some government offices, such as the Vehicle Inspectorate, have improved their quality. Others, such as the Prison Service have suffered from a potential flaw in the agency model – the separation of operational and policy-making functions. In such cases, accountability can suffer, service quality can decline and costs can increase. Unfortunately, the government has not reviewed alternatives to the agency model of restructuring government services.

The future direction of government reinvention in Britain will hinge on several issues. Firstly, the planning for improvements in quality must be based upon proven principles of public service planning. Secondly, the British experience has shown that the exclusion of workers and their unions from the process of establishing an agency will impede success. It is important to ensure that civil service workers in the newly-decentralised personnel system, should reinforce their current rights to collectively bargain over any increased savings. Creating the proper organisation, effective performance measures and developing constructive employment policies should be achieved through genuine consultation, cooperation and mutual agreement between management and the workforce. The United States should take pains to carefully examine the actual experience of government reinvention in Britain.

## Appendix 1

## Next Steps Agencies

(Established as at 1 October 1996)

	No of Staff
<b>Secretary of State for Defence</b>	
Army Base Repair Organisation	3,080
Army Base Storage and Distribution Agency	5,200
Army Individual Training Organisation	10,390
Army Technical Support Agency	1,115
Defence Analytical Services Agency	105
Defence Animal Centre	185
Defence Bills Agency	655
Defence Clothing and Textile Agency	515
Defence Codification Agency	160
Defence Dental Agency	835
Defence Evaluation and Research Agency	12,255
Defence Intelligence & Security Centre	435
Defence Postal and Courier Services Agency	500
Defence Secondary Care Agency	2,045
Defence Transport and Movements Executive	225
Defence Sales Agency	80
Disposal Sales Agency	80
Duke of York's Royal Military School	95
Hydrographic Office	750
Joint Air Reconnaissance Intelligence Centre	480
Logistic Information Systems Agency	245
Meteorological Office	1,985
Medical Supplies Agency	250
Military Survey	1,195
Ministry of Defence Police	3,860
Naval Aircraft Repair Organisation	1,530
Naval Manning Agency	260
Naval Recruiting and Training Agency	5,355
Pay & Personnel Agency	890
Queen Victoria School	70
RAF Maintenance Group Defence Agency	8,400
RAF Signals Engineering Establishment	1,330
RAF Training Group Defence Agency	7,220
Service Children's Education	1,775
<b>Secretary of State for Foreign &amp; Commonwealth Affairs</b>	
Wilton Park	30
<b>Ministry of Agriculture</b>	
ADAS	1,620
Central Science Laboratory	630
Intervention Board	860
Meat Hygiene Service	795
Pesticide Safety Directorate	190
Veterinary Laboratories Agency	995
Veterinary Medicines Directorate	100
<b>President of the Board of Trade</b>	
Companies House	825
Insolvency Service	1,295
National Weights and Measures Laboratory	50
Patent Office	730
Radiocommunications Agency	525

No of Staff

**Secretary of State for Transport**

COASTGUARD	530
Driver and Vehicle Licensing Agency	3,555
Driving Standards Agency	1,490
Highways Agency	1,645
Marine Safety Agency	350
Vehicle Certification Agency	75
Vehicle Inspectorate	1,470

**Secretary of State for the Environment**

Building Research Establishment	645
Ordnance Survey	1,905
Planning Inspectorate	605
Queen Elizabeth II Conference Centre	55

**Secretary of State for the Home Department**

Fire Service College	225
Forensic Science Service	750
HM Prison Service	38,000
United Kingdom Passport Agency	1,555

**Lord Chancellor**

Court Service	9,705
HM Land Registry	8,085
Public Record Office	435
Public Trust Office	555

**Attorney General**

Government Property Lawyers	110
Treasury Solicitors Department	380

**Secretary of State for Education and Employment**

Employment Service	34,485
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**Secretary of State for National Heritage**

Historic Royal Palaces Agency	425
Royal Parks Agency	245

**Secretary of State for Health**

Medicines Control Agency	375
Medical Devices Agency	140
NHS Estates	135
NHS Pensions Agency	415

**Secretary of State for Social Security**

Social Security Benefits Agency	71,880
Social Security Child Support Agency	6,905
Social Security Contributions Agency	7,280
Social Security Information Technology Services Agency	1,930
Social Security War Pensions Agency	1,230

## No of Staff

**Secretary of State for Scotland**

Forest Enterprise	2,765
Historic Scotland	570
Registers of Scotland	1,075
Scottish Agricultural Science Agency	130
Scottish Court Service	825
Scottish Fisheries Protection Agency	250
Scottish Office Pensions Agency	170
Scottish Prison Service	4,505
Scottish Record Office	120
Student Awards Agency for Scotland	120

**Secretary of State for Wales**

Cadw: Welsh Historic Monuments	195
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**Secretary of State for Northern Ireland**

Business Development Agency	280
Compensation Agency	120
Construction Service	725
Driver and Vehicle Licensing Northern Ireland	215
Driver and Vehicle Testing Agency	285
Environment and Heritage Service	345
Forensic Science Agency of Northern Ireland	120
Government Purchasing Service	60
Health Estates	135
Industrial Research and Technology Unit	150
Land Registers of Northern Ireland	215
Northern Ireland Child Support Agency	860
Northern Ireland Prison Service	3,435
Northern Ireland Statistics and Research Agency	185
Ordnance Survey of Northern Ireland	190
Planning Service	405
Public Record Office of Northern Ireland	70
Rate Collection Agency	235
Rivers Agency	500
Roads Service	2,325
Social Security Agency (Northern Ireland)	4,655
Training and Employment Agency (Northern Ireland)	1,250
Valuation and Lands Agency	305
Water Service	2,310

**Chancellor of the Exchequer**

HM Customs & Excise (24 Executive Units)	22,945
Inland Revenue (27 Executive Units)	51,660
National Savings	4,650
Office for National Statistics	3,040
PAYMASTER	610
Royal Mint	985
Valuation Office	4,430

**Chancellor of the Duchy of Lancaster**

CCTA	260
Central Office of Information	415
Civil Service College	250
Property Advisers to the Civil Estate	250
Security Facilities Executive	1,050
The Buying Agency	120

Total number of agencies: 125

TOTAL AGENCY STAFF 400,450  
of which TOTAL CIVIL SERVANTS 375,110

	No of Staff
ADAS Residual Function	★
Agricultural College and Development Service	550
Armed Forces Personnel	1,800
Army Equipment Support	1,170
Army Pay and Personnel	1,695
Army Recruiting	860
Criminal Records Agency	★★
Crown Solicitors Office	115
Defence Communication Service	2,200
Defence Estates Organisation	1,375
DG Ships	2,755
Directorate of Fisheries Research	450
Fisheries Research Services	245
Forestry Service	420
Health Services Information Systems	125
Industrial Tribunals	500
Information Systems Units	400
Medical Training Agency	305
Naval Bases and Support	14,155
Personnel Vetting	345
Pricing and Quality Service	935
RAF Logistic Support Services	1,190
RAF Pay and Personnel	890
RAF Recruiting and Selection	665
RAF Support Management Group	2,105
Recruitment	45
Rent Officer Service	1,145★★★
Research Division, Forestry Commission	205
Science Service	650
Superannuation	65
Veterinary Service	545
Youth Treatment Service	120
32 in number	Total Staff 36,875

Of which Total Civil Servants 30,030

\*\*\*Not civil servants and excluded from overall total





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