

Chapter 6: The United Kingdom ¹

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Section 1: The dominance of agencies in the UK Public Sector Landscape

The landscape of the UK public sector is densely populated with semi-autonomous agencies. A recent review counted 1148 semi-autonomous public bodies connected to UK central government or the devolved administrations in Scotland, Wales and Northern Ireland (Farrugia and O'Connell, 2008). The bodies are of different formal institutional type and include Non-Departmental Public Bodies (NDPBs), Executive Agencies, Special Health Authorities, Non-Ministerial Departments and Public Corporations. Taken as a whole they employ the vast majority of civil servants and perform a range of functions including the delivery of government services, the provision of independent advice and expertise, regulation of business and many other national executive functions. While politicians or senior government officials have some input into staffing, goals, strategy and budgets, the bodies all operate at arm's length from government ministers. The degree of autonomy varies between bodies and broad categories of semi-autonomous body have been identified. This chapter surveys the population of these bodies. However, it focuses largely on a revolution that has taken place in the last two decades in the use of Executive Agencies, a

¹ We would like to acknowledge thanks to our funder the Economic and Social Research Council, Project Grant No. RES-062-23-2471.

distinctive category of semi-autonomous public body which has come to dominate the structure of UK central government. These bodies now employ 50% of all UK civil servants. Executive Agencies have been classified as ‘semi-autonomous organizations... without legal independence but with some managerial autonomy’ and are less autonomous from executive politicians than bodies with formal statutory independence (James & van Thiel, 2010)².

Section 1: The Landscape of Semi-autonomous Bodies and the Rise of Executive Agencies

The United Kingdom is a parliamentary democracy and has a unitary system of government with certain responsibilities devolved to the Scottish Government, Welsh Assembly Government and Northern Ireland Executive since 1999. The work of the UK central government is conducted by government departments which are led by Ministers and staffed by permanent Civil Servants. While civil servants in these departments are responsible for implementing government policy there is a long history of involvement of various semi-autonomous or ‘arms-length’ bodies in aspects of government work, with a significant growth of such bodies in the 19th and 20th centuries. Several government reviews throughout the 20th century commented on the proliferation of such agencies, including the Haldane Review of 1918, the Anderson Review in 1945, the Bowen Review of 1975, and the Pliatzky Review of 1980 (Institute for Government [IfG], 2010).

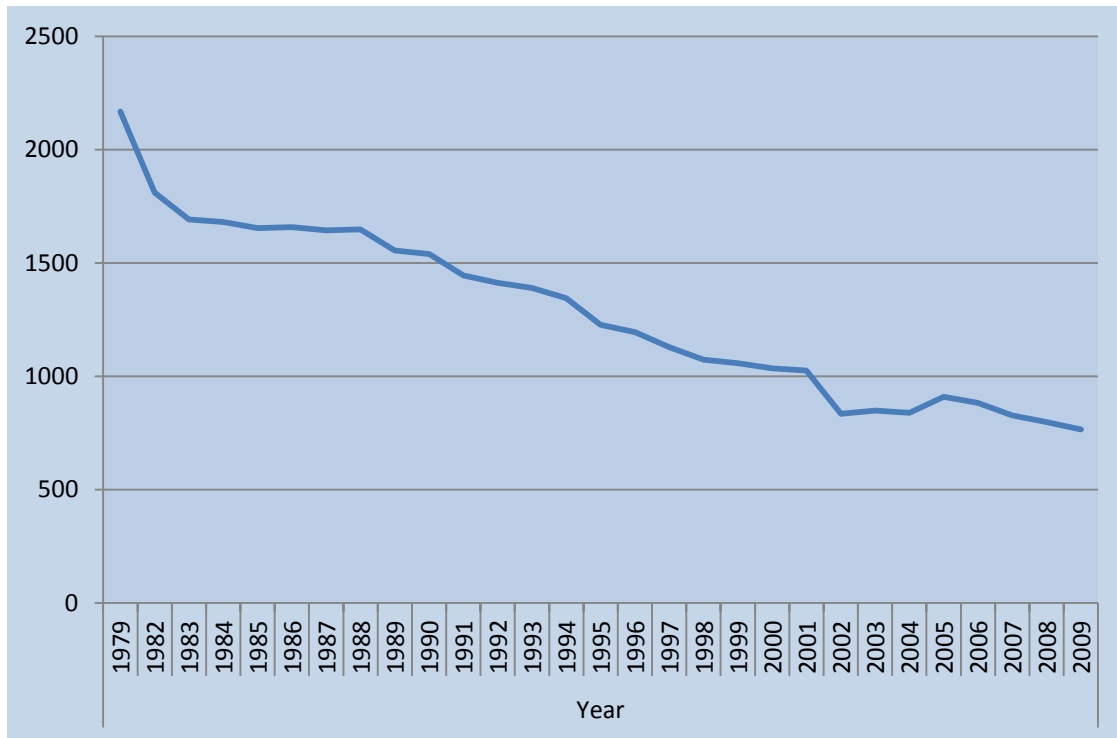
The most numerous type of semi-autonomous bodies are Non-Departmental Public Bodies (NDPBs), which play a role in the processes of national Government but are not Government Departments or a part of these, and they operate to a greater or lesser extent at arm’s length

² Executive Agencies thus sit within Category 1 of the COST Agency Classification

from Ministers (Cabinet Office 2009). There are several varieties including Executive NDPBs, Advisory NDPBs, Tribunal NDPBs and Independent Monitoring Boards. Executive NDPBs serve executive, administrative, regulatory or commercial functions while advisory bodies provide Ministers with independent advice on a range of issues. Tribunal NDPBs have jurisdiction in specialised fields of law while Independent Monitoring Boards typically serve a ‘watchdog’ role over areas such as prisons and immigration removal and holding centres. While Executive NDPBs have their own staff, the other three categories of NDPB do not and are instead supported by civil servants from their parent department (Cabinet Office, *ibid*).

Executive NDPBs employ around 111,000 people and in the financial year 2008-2009 spent a combined total of £46.5bn, of which £38.4bn was funded directly by the UK Government with the rest funded through fees, charges, levies or other funding sources such as EU grants (Cabinet Office 2009). In 2006 expenditure on Executive NDPBs represented approximately 22% of spending in all public bodies and 26% of government funding on public bodies. As outlined in figure 6.1, the number of NDPBs (all varieties) has declined over the past thirty years, from 2167 such bodies in 1979 to 766 in 2009. Staffing numbers correspondingly reduced by almost 50% from 217,000 in 1979 to 111,000 in 2009. While some of this decline reflects devolution in Scotland, Wales and Northern Ireland in 1999, attrition in public bodies had begun well before this date as also seen in figure 6.1.

Figure 6.1 Number of UK NDPBs 1979-2010



* Data compiled from from *Public Bodies* 1979-2009 (Cabinet Office). From 2002 onwards NDPBs of the devolved administrations of Scotland, Northern Ireland are excluded from this figure.

Alongside this overall downward trend in NDPBs there was a simultaneous growth in the other major type of semi-autonomous public body, Executive Agencies. Their introduction following the 1988 ‘Next Steps’ report represented a distinctive and far-reaching reform because of the radical way it transformed the delivery of government services. Indeed, the reorganisation was described as ‘the most ambitious attempt at Civil Service reform in the twentieth century’ (Treasury and Civil Service Committee, 1990, p. v). The review, ordered by the government of the time, recommended that Executive Agencies be established in a new institutional framework for delivering central government services. The majority of civil

servants would, over time, gradually be transferred to work for these bodies rather than directly for government departments.

Executive Agencies are 'semi-detached' central government bodies headed by Chief Executives which operate within a framework of accountability to ministers. They enjoy considerable freedom from day-to-day intervention by government and some freedom from government personnel, grading and management regulations, in return for achieving objectives set by their parent departments. There is strong emphasis on output-focused financial and operational performance targets for which the agency is accountable and for which the chief executive has strong personal accountability in his/her employment contract (James, 2003). By the mid-1990s the agency model had become the principal organisational type for central government public service delivery (Cabinet Office, 2006). Executive Agencies continue today to be the main service delivery agents for central government alongside Executive NDPBs.

Unlike NDPBs, personnel working in Executive Agencies are classed as civil servants and in 2009 Executive Agencies employed over 238,590 permanent full time equivalent staff, from a total of 478,200 civil servants³. Executive Agencies combined in 2003 had an annual expenditure of over £18 billion⁴. Budgets vary widely, however, with a few agencies consuming a large proportion of overall agency expenditure.

³ This figure includes Scottish and Welsh Agencies but excludes Northern Ireland Agencies and Ministry of Defence Agencies.

⁴ National Audit Office figure for 101 in 2003, excludes Northern Irish and Scottish Executive Agency expenditure

The tasks performed by Executive Agencies cover the majority of areas of central government including defence, social security, health administration and regulation, the environment, agriculture and fisheries, criminal justice, immigration, transport, intellectual property, land registration, building standards, and business administration and regulation. The vast majority focus on delivering services, while a smaller number carry out research or regulation. The legal framework of Executive Agencies differs from that of other semi-autonomous agencies such as NDPBs. While NDPBs must be established in statute, Executive Agencies do not require any new legislation to be created (Judge and Hogwood, 2000). They are in most cases not distinct legal entities, and remain legally part of their parent ministerial department.

Executive Agencies have their own budgets which are financed in one of three ways. Agencies can be supply-financed through money voted by Parliament on either a fully funded basis or net funded basis, or are financed through a trading fund. In fully funded regimes both income and expenditure are subject to control, while under a net funded regime, only net expenditure is controlled, meaning that expenditure can be increased providing there is corresponding increase in income through an agency's receipts. Trading fund regimes have the freedom to raise revenue from their customers and to alter services according to customer demand. They fund the majority of their work from operational receipts, and many are entirely self-financing. Trading Funds, however, are not separate legal entities and, like other types of Executive Agency, remain part of a government department. At 2002, 49% of Executive Agencies were fully funded, 36% were net funded and 15% were trading funds (Office of Public Services Reform/ HM Treasury, 2002).

The governance structures of Executive Agencies also vary, but the model employed must be set out in an agency's framework document (Cabinet Office, 2006). Each agency is required to have a Departmental Sponsor, envisaged in the Fraser Report as a senior figure (usually a senior civil servant) who is trusted by both the Minister and Agency Chief Executive, and who acts as the main source of external advice on the performance of an agency, a so-called 'Fraser figure'. This person helps establish a performance management framework, advises ministers on their response to performance information, and provides advice to the Chief Executive on the delivery of departmental objectives (Office of Public Services Reform/ HM Treasury, 2002).

A further optional feature of Agencies' governance structure is a Ministerial Advisory Board (MAB), the establishment of which is at the discretion of the sponsor department. At 2002, 37% of agencies had MABs (Office of Public Services Reform/ HM Treasury, 2002⁵). These are usually chaired by a relevant senior official working closely with the sponsoring minister, and on occasion by the Minister. The role of the MAB is to advise the minister on strategic direction, corporate and business plans, target setting and the performance related pay of the Chief Executive. Agencies also have management boards to support the Chief Executive on which at least two non-executive members should reside (Cabinet Office, 2006). The purpose of non-executive members is to bring outside expertise and constructive challenge to the agency and its board. They serve an advisory and supportive role and do not hold powers of direction or liabilities such as those held by directors of companies.

Section 2: History and drivers of agencification

⁵ Based on a survey of 85 out of 127 Executive Agencies in 2002 (67% response rate), Office of Public Services Reform/ HM Treasury 2002

The Executive Agency model was recommended by Sir Robin Ibbs in a 1988 review of the Civil Service entitled *Improving Management in Government: the Next Steps*. Commissioned by Margaret Thatcher, the aim of the review was to seek recommendations to improve the management and delivery of government services and to reduce what was perceived to be a monolithic Civil Service with centrally set rules and a risk averse culture (Office of Public Services Reform/ HM Treasury, 2002). The then government accepted the main recommendations of the review which included disaggregating ministerial departments into distinct agencies to carry out the executive functions of government, with a greater focus on the delivery of government services and the attainment of specified results. Agencies would be 'semi-detached' from Whitehall Departments and headed by a Chief Executive with freedom to manage operations in order to meet objectives and targets set by the agency's parent ministry. The model established Chief Executives as personally accountable for operational performance, with Ministers retaining the right to alter the system and reorganise the status of Executive Agencies in cases of under-performance.

The Executive Agency model was in keeping with New Public Management reforms occurring elsewhere which saw countries transferring central state activities to various forms of semi-autonomous body. To some extent the Executive Agency model also reflected other types of arms-length relationships held by Whitehall with local government, nationalised industries and non-departmental public bodies. As with Executive Agencies these bodies operate within frameworks which set out policies, objectives and performance monitoring. However, the Executive Agency model is unique in the UK in terms of the level of ministerial control exercised over these bodies. Executive Agencies are a particular form of semi-autonomous body that combines managerial autonomy with performance accountability

to executive politicians. These bodies remain close to the core of central government and operate under the supervision of politicians, in stark contrast to bodies set up to ensure independence from politicians, for example in regulation or central banking (see James, 2003 pp.2-7 and pp. 41-55 for a fuller discussion of the distinctiveness of the Executive Agency model).

The model was also influenced by New Public Management schools of thought associated with new institutional economics and business managerialism, although with a specific focus on Anglo-American business models. In the Anglo-American model big business is conventionally established as a multi-divisional firm with distinct business units whose Chief Executives have considerable freedom in how they use resources. The centre of the organisation, also headed by a Chief Executive, monitors the performance of the individual units on a few key output focused criteria, in the interests of shareholders (James, 2001; 2003). Applying this model, the Next Steps reformers advocated a separation of tasks between departments and Executive Agencies and control of the latter through a system of performance targets to be met by Chief Executives.

There are a number of possible explanations for the emergence of the Executive Agency model. The official 'public interest' justification given by the reformers of the time centred on improving the economy, responsiveness and effectiveness of central government services through the adoption of more business-like and output-focused management practices. An alternative 'bureau shaping' explanation sees the reform as at least partly driven by the desire of senior officials to delegate executive activity to juniors through the creation of Executive Agencies, permitting themselves to focus exclusively on policy work (James, 2003). Rather than the reform being led principally by policy makers, there is substantial evidence that

senior civil servants played a major role in the design of the reform in response to pressure from politicians to create management improvement (James, 2003).

Most commentators, however, agree that the separation of policy and delivery was a key normative principle underlying the reform. Ibbs and others at the time of the reform noted that Executive Agencies would provide a better focus on delivery, something which was insufficiently prioritised by the more ‘policy-focused’ departments (IfG, 2010).

The number of Executive Agencies grew fairly rapidly in the first ten years of the reform from none in 1988, rising to 139 agencies in 1998 (see figure 6.2). At its peak in 1998-1999 over three quarters of civil servants were employed in Executive Agencies (Cabinet Office 2006). The next eight years up to 2006 saw a modest decline in the total number of Executive Agencies to around 125, and by 2010 the number had dipped further to around 90 (a total decrease of 35% between 1998 and 2010). Research by the authors is currently underway to explore the reasons for this modest ‘de-agencification’ trend but a few speculative suggestions can be made.

The reform was initiated under a Conservative administration and the election of a Labour Government in 1997 coincides with the beginning of the decline in numbers of Executive Agencies. However, it was not the story of a simple policy reversal by the new Labour Government. Labour broadly accepted the principles of the Executive Agency model as stated in the 1998 Next Steps Report. Indeed, the Labour Government did not immediately reduce the number of agencies, and there was a less than 10% net reduction in Executive Agencies between 1997 and 2006. Labour was continuing to create Executive Agencies prior to leaving office in 2010, with seven new agencies established in the financial year 2008-09.

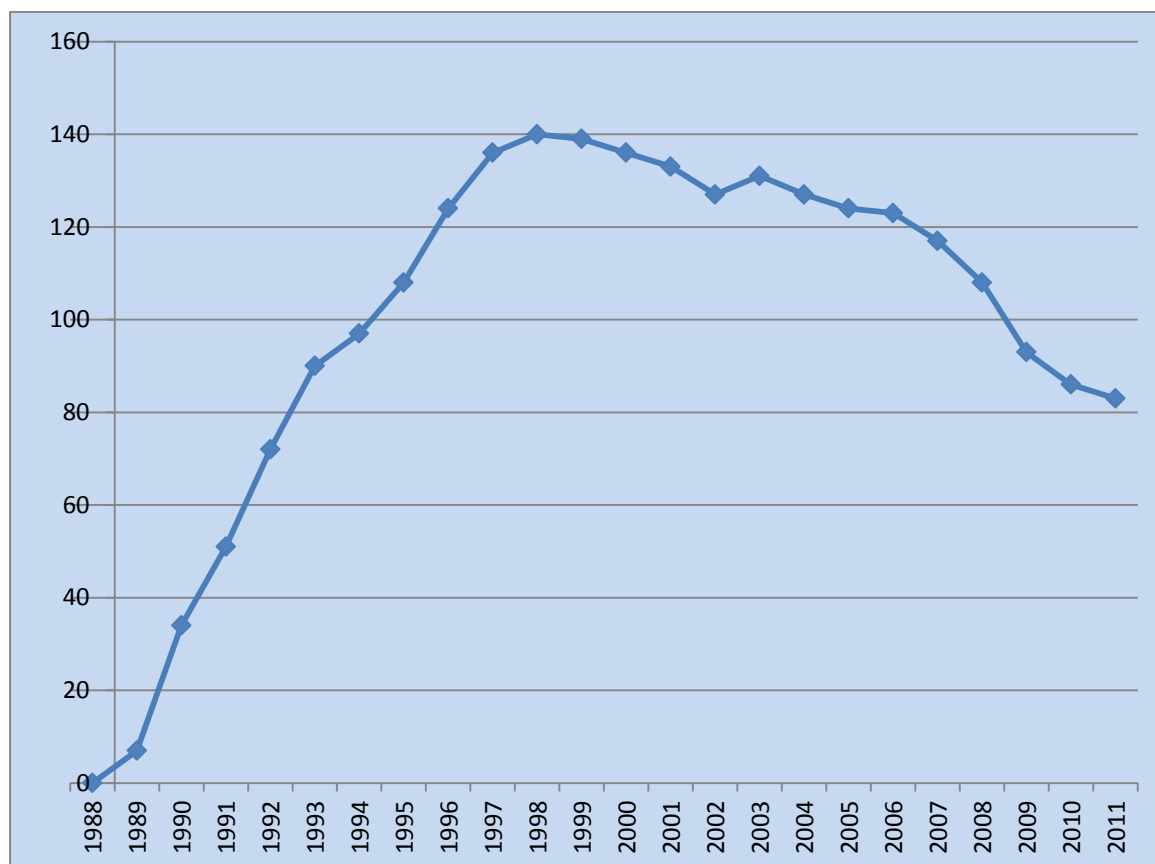
The reduction in the number of agencies from 2006 appears to be at least partly related to a review of arms-length bodies in 2005 which the then government pursued shortly after the 2005 general election. Culls and re-organisations of government agencies following general elections are far from unusual in the United Kingdom (IfG, 2010)⁶.

A managerial or public interest explanation might account for the reduction in Executive Agencies as associated with an assessment of their performance. Research currently underway by the authors will explore the impact of performance on agency termination⁷, although see section four below for a brief appraisal of the performance of Executive Agencies to date.

⁶ Indeed the current Coalition Government has recently announced significant cuts to the number of arm's length bodies, predominantly NDPBs and other statutory bodies, with 20% of all such bodies to be cut and 13% to be merged (BBC News, 14/10/10).

⁷ 'Chief Executive Succession and the Performance of Central Government Agencies', Economic and Social Research Council Project Grant No. RES-062-23-2471.

Fig 6.2 Number of UK Executive Agencies 1988-2011



Data compiled from: Civil Service Yearbook 1988-2011; Civil Service Statistics 1992-2011; Next Steps Reports 1989-1999

Section 3: Accountability, autonomy and control

The Executive Agency model was designed to reinforce the separation of policy and management, giving Ministers control over the former and Chief Executives considerable autonomy over the latter. The broad policy framework and resources are set by the Minister in charge in consultation with the Treasury and Office of the Minister for the Civil Service, while the day-to-day operations of the agency are delegated to the Chief Executive (National Audit Office [NAO], 1989). A published framework document for each Executive Agency

provides details of resources and policy objectives, and establishes the key relationships between, and responsibilities of, the Chief Executive, the Ministry and other parties. While Chief Executives are personally accountable to ministers for operational performance, Ministerial responsibility is largely related to policy rather than operations, although the extent to which ministers *should* be free from blame when serious operational problems occur has been the subject of debate.

Agencies' framework documents are reviewed every five years, providing an opportunity for sponsor departments to assess whether the agency is meeting the government's objectives. At this point departments may assess whether Executive Agency status should continue or whether the Agency's objectives are best delivered within another organisational form. However, while decisions to reorganise or terminate agencies are likely to be partially explained by organisational performance, it must also be recognised that institutional reorganisations are often influenced by factors such as ideological preferences, political imperatives, resources and windows of opportunity (see Gains, 1999 for an account of the rationale for privatisation in Next Steps agencies).

Should ministers decide to terminate an agency, this can be done by dissolving the agency, merging it with another Executive Agency, returning its functions to its sponsor department, or converting the agency to a new type of public body (Cabinet Office, 2006). In practice there have been many such agency reorganisations and terminations. Our research indicates that over the period 1988-2010 approximately 131 agencies were terminated (although a total of 217 agencies were created over this same period, cancelling out many of these terminations). Of those which were terminated, the majority were either merged with other bodies to create a new agency (37%), or their functions were acquired by another public body

or a government department (26%). 18% had their organisational form changed (for example becoming non-departmental public bodies or state owned enterprises) and 12% were privatised. The remainder were either replaced by new agencies (5%) or had their functions eliminated entirely (2%).

Executive Agencies are incorporated into the system of ministerial accountability to parliament. They set high level ministerial performance targets which must be announced by the minister to parliament, and ministers report to parliament on agencies' strategic performance and strategic issues. Performance targets are set out in agencies' corporate and business plans, and agencies are required to report on performance against ministerial targets in their annual reports and accounts.

Despite these mechanisms, there are nevertheless some tensions surrounding the accountability of Executive Agencies. Judge and Hogwood (2000) argue that there is much variation in the extent to which agencies are held to account by parliament. This is important since MPs in parliament are the principal means through which the users of services provided by Executive Agencies can express their dissatisfaction to ministers. Examining the number of written parliamentary questions and letters from MPs regarding Executive Agencies over the period 1995-1998, the authors found that MPs' concerns tended to focus on a very select group of agencies and were also rather partisan in nature. Judge and Hogwood also note that parliament has no say in decisions surrounding the formation, termination or adaptation of Executive Agencies, their budgets, framework documents or performance targets, and no formal opportunity to veto ministerial plans to terminate or privatise agencies. While the authors concede that the amount of published information on the activities carried out by agencies is far greater than before the Next Steps reform, they suggest that there is no

systematic approach for calling Executive Agencies to account. This interpretation of accountability reflects a wider critique of semi-autonomous agencies in the UK which suggests that the delegation of functions to such bodies has occurred without detailed consideration of the administrative and democratic consequences of this process (Flinders, 2008).

The performance target regime is of central importance since this is the primary means used by ministers to hold agencies to account. However, the performance systems used by agencies have been criticised for an inadequate focus on output and outcome targets, and for incomplete coverage of agencies' objectives (Talbot, 1996). Moreover, during some periods of the reform there has been high turnover of targets year upon year making it difficult to consistently measure performance over time. One analysis suggests an annual 'churn' rate in targets of 60% per annum in newer agencies and 20% in older agencies (Talbot, 2004).

Executive Agencies are granted some financial flexibilities which are written into their individual framework documents. In general, Chief Executives of Agencies have operational freedom to spend their allocated budgets as they see fit. They are, however, subject to normal public sector spending controls including those imposed by the Treasury. The freedoms accorded to agencies differ according to their financial regime, with trading agencies enjoying most financial autonomy and fully funded agencies least.

The agency model overall was originally designed to give agencies considerable freedom with regards to staffing and employment issues. Flexibility in pay grading systems and the ability to recruit from outside the civil service was, in theory, supposed to allow agencies to attract experienced and highly qualified staff. Another element of the reform was that

agencies should have the freedom to operate performance-based pay systems and many have taken up this opportunity. Despite these flexibilities, a substantial proportion (40%) of Chief Executives surveyed ten years after the introduction of the reform stated that they desired greater flexibility in their use of financial and human resources with some feeling constrained by their parent departments (Office of Public Services Reform/ HM Treasury, 2002). This dissatisfaction is likely to be partly related to the fact that only some departments passed on these freedoms to their agencies, reflecting different departmental cultures.

Section 4: Impact of agencification and performance issues

Whether and to what extent the Executive Agencies reform has improved government performance in the United Kingdom can be judged by asking two key questions. First, how have individual agencies performed? Second, how have agencies affected the systemic performance of the whole of central government and broader public sector with which they interact?

In relation to the first issue of individual agency performance, previous work which has investigated their economy, efficiency and effectiveness over the 1990s, suggests a mixed picture (James, 2003). On the economy dimension, agencies generated improvements in real terms administrative costs, although this improvement was only observed for non-trading agencies, with trading agencies found to have *increased* their real terms administrative costs. The rising costs of trading agencies may partly be explained by the fact that these agencies have greater control over their own budgets as compared to non-trading agencies, giving them an incentive to try to increase these. Furthermore, many of these bodies are effectively monopoly providers allowing them to pass on cost increases to their customers.

On efficiency and effectiveness dimensions, agencies were broadly successful in achieving their targets. 88% per cent of Executive Agencies surveyed in the late 1990s were deemed to be performing satisfactorily or above in terms of their ministerial targets. In terms of user orientation, a key aim of the reform, the picture is mixed. Customer satisfaction surveys in some agencies suggested reasonably high levels of satisfaction, with over 80% of agencies rated as satisfactory or above. However on other indicators such as number of complaints, and levels of maladministration and error, some of the major Executive Agencies, including the largest at the time, the Benefits Agency, were performing poorly after ten years of operation (James, 2003).

The agency policy review of 2002 (Office of Public Services Reform/ HM Treasury, 2002) concluded that the Next Steps agency model overall had been a success and should continue. The agency model was deemed to be flexible enough to cope with the heterogeneity of services, research and regulatory functions managed by central government. Agencies were meeting or exceeding over 75% of their performance targets⁸. However, the review also found a number of areas for improvement, most notably the relationship between the Agency and its Sponsor Department. The report noted that some agencies had become too disconnected from their departments, and that better linkages were needed including clearer frameworks for accountability and clearer roles for Non-Executive board members. Furthermore, the report argued that agencies' objectives needed to become more customer-focused and challenging.

⁸ Figures for 1998/99 reported in the Annual Agency Whitepaper, see Office of Public Services Reform/ HM Treasury 2002, p18

On the second question, the issue of systemic performance as a whole, one major problem identified with the Next Steps reform was that the performance system led agencies to focus on their own narrow performance targets, rather than on wider systemic effectiveness. There were criticisms of a 'silo mentality' in some agencies and a lack of joint working between other agencies and organisations to deliver outcomes (Office of Public Services Reform/ HM Treasury, 2002). Poor information sharing and communication between agencies and departments, insufficient thought about implementation at the policy design phase, inaccurate customer information sharing between agencies and local authorities, and missed opportunities for developing shared services such as IT infrastructure were among the wider systemic performance problems reported (James, 2003).

The fragmentation as a result of the agencification process subsequently led to a greater focus by the then Government on 'joined-up government', with several initiatives, such as the Public Service Agreements and cross-cutting agency targets introduced to counter these problems (James, 2004). Ministers are accountable for PSA targets but are reliant on Executive Agencies for the delivery of many of these. Identifying the relationship between Agencies' own performance targets and the broader PSA outcome targets for their parent government department however has not always been straightforward because policy is much more difficult to separate from implementation than many of the formal structures would suggest.

A further issue of systemic performance relates to the economy of central government as a whole. While accurate information on the proportion of central expenditure spent on running Executive Agencies is hard to come by, it is possible to make some assessment by measuring real terms central government spending over the main period of Executive Agency creation.

Taken as a whole, real terms central government administrative costs rose by 17% over the period 1988-2001, while programme expenditure rose by 32% (James, 2003).

Administration costs as a proportion of total costs fell slightly over the period, indicating that the agency model may have been associated with some improvement in administrative efficiency. However, as Talbot (2004) notes, while there were some improvements in annual administrative costs, these improvements were modest and consistently fell short of the 5% per annum savings at which the Next Steps architects had originally aimed. Moreover, in assessing overall economy, one must also account for the additional costs associated with the creation of agencies and their associated accountability mechanisms (Flinders, 2008).

Conclusion

The UK has for a long time made use of semi-autonomous bodies, including Non-Departmental Public Bodies, Non-Ministerial Departments, Public Corporations and more recently Executive Agencies. The growth of Executive Agencies in the late 1980s and 1990s was revolutionary in terms of the operation of central government. The model has stood the test of time although there have been many mergers and other forms of reorganisation bringing about a reduction in the number of Executive Agencies since its peak in the late 1990s, reflecting a broader de-agencification process affecting all types of semi-autonomous public body. The core Executive Agency model however remains intact with refinements having been made along the way. The model has been emulated elsewhere, with parts having been adapted in countries such as Canada, the Netherlands, Korea and Japan. Overall, the Executive Agency model can be argued to have increased the transparency of much of government service delivery, as well as helping instil a more performance oriented culture

into the UK civil service. The practice of setting performance targets spread from the Agencies to the core departments with the expansion of the system of Public Service Agreements. Civil servants in departments also became subject to greater specification of their performance, drawing on the experience with Agency Chief Executives. Overall, the agency model seems to have helped focus attention on the organisations' core business, allowing them to operate in a more business-like and output oriented fashion.

On a less positive note, it is not clear to what extent the Executive Agency revolution has created overall efficiencies for central government, and this issue deserves further study.

While individual agencies have reported yearly improvements in running costs, the impact on central government expenditure as a whole is less clear. An ongoing challenge is the wider systemic performance of central government as a whole, with agencification having further exacerbated problems of departmentalism, an enduring problem in the Whitehall system of government. The accountability arrangements of Executive Agencies continue to be much more focused on accountability to executive politicians than to service users, despite the intentions of the original reformers for a much more customer-focused approach. These challenges and the continuing part that Executive Agencies play in the system of UK central government make them an important object of ongoing study and evaluation.

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