

SETTING UP NEXT STEPS

**A short account of the origins, launch and
implementation of the Next Steps Project in the
British Civil Service**

by Diana Goldsworthy

LONDON : HMSO

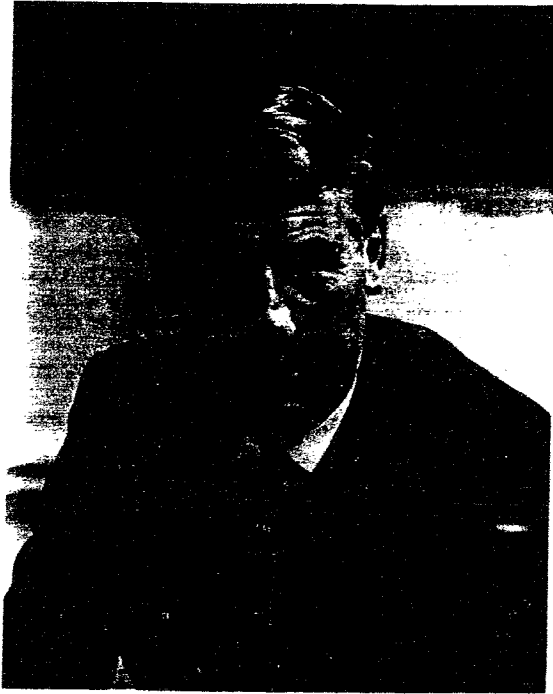
May 1991

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FOREWORD



by Sir Robin Butler KCB CVO, Head of the Home Civil Service

Visitors often ask me about the Next Steps initiative in the Civil Service. People both in Britain and from overseas want to know what was the objective of the reform, how we went about it and what we now regard as the conditions necessary for introducing reforms on this scale into a very large and diverse institution like the British Civil Service. So, while memories were fresh, I commissioned this account of the launching of the Next Steps initiative, which draws both on the records and on the memories of those principally involved.

If I have to pick out the main foundations on which the success of an initiative like this must be based, I would choose the following.

It must have the wholehearted support of the Government and the Civil Service itself, as well as other powerful bodies, like other political parties, members of Parliament and trade unions.

The common thread which has run through the Next Steps initiative and which has made it possible for all these interests to fall in behind it is the prospect of improving the public services which it offered, of freeing the energies and initiative of civil servants to that end and thus of making better use of the resources provided for these services. It has also been essential that the chain of accountability through Ministers to Parliament has been preserved and, I believe, strengthened. The emphasis on actual performance, through the setting of demanding targets, has been of vital importance.

I would also pick out the need for strong political commitment, publicly made, so that it is known to all concerned that difficulties encountered must be overcome; the involvement of staff at grass roots level in contributing their ideas about the ways in which their own contributions can be increased; and, as a catalyst, a project team, impartial between the interests involved and committed only to seeing that the initiative achieves its objectives and problems are solved.

The following account is a personal view from Diana Goldsworthy, who was one of the original members of the Next Steps Project Team. It is not an official history, but I hope that readers will be able to draw out some lessons which they can apply to their own circumstances.

Robin Buttar

May 1991

I N T R O D U C T I O N

Next Steps is the name given to the Civil Service reforms under which Executive Agencies are being set up to deliver government services.

This short account of the inception and launch of the project describes a series of events which is focused mainly on the creation of those Agencies. But Agencies are not an end in themselves. They are only the vehicles for improving the delivery of government services, for obtaining better value for taxpayers' money, and for giving staff more satisfying work and working conditions.

O R I G I N S

Background of reform

The British Civil Service has a reputation for fairness, propriety and political impartiality stemming from the Northcote Trevelyan reforms of the last century. As the role of the State - and thus the job of the Civil Service - has changed over the years, the process of reform has continued. Recognising that the resources needed to provide government services amount to an increasing 'overhead' on the taxpayer, much effort has been focused on achieving greater efficiency and on trying to give the taxpayer maximum value for money.

The Fulton report in 1968 drew attention to the need for more emphasis on management skills, and widening the pool of talent from which managers were drawn to include more specialists. It also recommended the setting up of discrete management units, although at that time the financial management infrastructure needed for such a step was lacking. The Financial Management Initiative (FMI) in 1982 addressed this issue directly. Its aim was to match responsibility for operational decisions, as far as practicable, with authority for committing resources; and to delegate decision-making as far down the line as possible. It required managers at all levels to be provided with accurate and useful financial information systems. Both Fulton and the FMI were important in paving the way for Next Steps. They

represented a move away from central control towards a more federal Service organised to reflect the variety of its tasks.

The Efficiency Unit's Study

The Conservative Government which came into office in 1979 was pledged to reduce the size of the Civil Service and to make it more efficient. By the autumn of 1986 the Prime Minister's adviser on efficiency, Sir Robin Ibbs, was able to report that there had been substantial progress. The size of the Civil Service had been cut by 19%. Efficiency reviews had produced savings of about £1 billion. Management information systems and delegated budgeting were being widely introduced, and the practice of setting targets for performance had begun to take firm hold.

But Sir Robin felt that the process was going neither far nor fast enough. There was still not enough personal commitment from individuals at all levels to improving efficiency and management. Leadership and the right incentives to make further progress were often lacking. Middle and junior managers felt that they were still not being given the authority to make changes to improve value for money. He suggested that what was needed was not more systems or new procedures but a concerted effort to speed up the change in management style.

The Prime Minister, Mrs Margaret Thatcher, was disappointed to discover that, after seven years of effort to improve management in the



Sir Robin Ibbs

Civil Service. so much still needed to be done. She commissioned Sir Robin to find out why, and to suggest how to move matters on. At the beginning of November 1986 Sir Robin Ibbs and the Efficiency Unit - a small team of civil servants and people from industry - began an intensive fact finding exercise. The team consulted those who were delivering government services, as well as those at the top who were responsible for managing the Civil Service. They listened to managers both in Headquarters and local offices. They asked former civil servants about their reasons for leaving. They talked to private companies and other public sector organisations.

They discovered that, although the main business of some 95% of the Civil Service was to deliver services, operational efficiency attracted only a low priority among senior people compared with giving policy advice to Ministers. Systems and attitudes were thought to be focused more on avoiding errors which could expose officials and their Ministers to criticism than on improving results.

The reason for this lack of attention to improving the delivery of services was partly that Ministers' huge workloads did not allow them enough time to take a detailed interest in managing their Departments. But it was also because the Civil Service was still largely governed by a body of centrally laid down rules, even though it was too big and too diverse to be managed as a single entity. Too often, these central controls prevented local managers from being able to make decisions in the best interests of their own operations.

The Efficiency Unit believed that these were major obstacles to further improvement. The answer, they suggested, was to separate the executive functions of government from the policy-making role, and to break down further the monolithic, centrally-controlled management structure. But to bring this about, the executive functions must be organised into visible units. There must be a paramount emphasis on results, expressed in more than words. There must be overt and meaningful delegation of personal responsibility to individual managers. In short, there must be some palpable means of turning the ideas into reality. The instrument which the Efficiency Unit suggested was an executive agency.

The agency idea

Under FMI, devolved budgeting had been introduced, and there had been an effort to install performance measurement as standard operational practice. Alongside this there had been some decentralisation of personnel responsibilities, including, in 1987, the introduction of more flexible pay agreements which gave managers some discretion to adjust pay to respond to the diversity of Civil Service work and the regional variations in the labour market. But operational managers claimed that in many areas they still lacked the freedom to manage that they needed to improve the delivery of their services.

Sir Robin Ibbs and his team recognised the frustrations and sought to tackle the root causes. First, they accorded prime importance to

results, and thus to the need to reorientate systems and attitudes to focus on the delivery of services and, flowing from this, on the needs of the recipients of those services - the customers - whether inside or outside government. The idea of a 'customer' for government services was, for some, quite new, but many people thought that, in highlighting a wish to improve the way that services are managed, the Efficiency Unit had correctly identified a deep vein of commitment to public service among civil servants. Thus, improving quality of service by better use of resources became a main theme of Next Steps.

Second, they recognised that, however much systems are changed, real improvements depend on individuals being held personally responsible for results. A sense of ownership and personal identification with the 'product' is essential to getting better performance. And this 'ownership' is more likely to be found in organisations which have a clear identity and a degree of autonomy. Many civil servants feel strong loyalty to their local office or place of work, but few of them can relate as meaningfully to 'the Civil Service' or even, sometimes, to their parent Department.

The Efficiency Unit suggested that an Agency offered the most practical way of organising work to take account of these realities. They defined an 'agency' as a discrete area of work with a single, named individual - a Chief Executive - in charge, with personal responsibility to the Minister for day-to-day management. An Agency is focused on and structured round the job to be done. The Minister allocates resources to the Chief Executive and sets targets for the

results to be achieved. Alongside this, however, the Minister also delegates the managerial independence, within the pre-set budget, to decide how best to run the organisation and get the work done, with appropriate rewards for success and penalties for failure.

The Efficiency Unit proposed that each Agency should operate within a policy and resources framework set by Ministers. The aim was to establish a more contractual relationship between the Chief Executive and the Minister. Each Agency would be different and would have to be set up individually, reflecting the wide variety of government services. There could be no model or blueprint.

They also stressed the importance of preparing managers properly for the job of managing the delivery of services. This meant, not only giving them relevant and effective training, but also ensuring that they had appropriate management experience and that they made a success of it. It was equally important that staff in policy areas had a proper understanding of the management of executive activities. The Efficiency Unit suggested that the normal career pattern of senior civil servants should in future include successful experience of both policy and executive work.

The Agency concept was attractively straightforward. The underlying principle, of a 'bargain' between the Minister and the Chief Executive, with benefits for both parties as well as the customer, the taxpayer and staff, was readily understood. It also seemed to follow on naturally from previous initiatives, such as those stemming from the Fulton

report, and the more recent FMI. Agencies were the logical “next step” in the trend from a monolithic, centrally controlled Civil Service to a more federal, varied structure.

Like the best tunes, the idea seemed familiar on first hearing. At the same time, it offered a genuinely fresh and imaginative approach for those delivering services. The role of the silent and often apparently invisible majority of civil servants seemed at last to have been recognised and, unlike previous reforms, it therefore seemed likely to be driven ‘bottom up’ rather than imposed ‘top down’.

The Next Steps Report

The Efficiency Unit presented its report “*Improving Management in Government - the Next Steps*”, to the Prime Minister in the spring of 1987. Its persuasiveness lay not in the presentation of detailed evidence but in its description of a state of affairs which many readers said that they recognised readily from their own experience; and in an analysis with which most of them instinctively agreed. The Prime Minister welcomed the Report. She recognised the radical nature of the reforms being proposed but felt that the benefits were worth striving for. She was supported by the Cabinet Secretary and Head of the Home Civil Service at that time, Sir Robert Armstrong (now Lord Armstrong of Ilminster). Sir Robert and his senior colleagues then began an intensive period of activity to work out how the Efficiency Unit’s ideas were to be put into practice.

Preparation for launch

Departments were asked to identify functions which were suitable to become Agencies. It seemed sensible to look first where the ideas seemed to be most immediately appropriate, that is, in those areas which already bore some of the most obvious characteristics of an Agency. This meant executive functions which were already distinct from the mainstream Departmental activities not calling for Ministers' day-to-day involvement; and which already possessed - or had the potential for - a degree of managerial independence and financial autonomy. Some of the areas concerned were also already in the hands of managers who seemed well fitted for the role of Chief Executive.

Throughout the Summer of 1987, Departments, together with the heads of some of the potential candidate organisations themselves, worked to identify and prepare detailed proposals. Alongside this, some more general issues needed to be considered. The main one was the degree of managerial autonomy and authority over resources which could be delegated to Chief Executives without either eroding Ministers' accountability to Parliament, or imperilling the control of public expenditure to which so much effort had successfully been devoted in recent years. Reconciling greater delegation of authority with maintaining firm control of public expenditure has been a major preoccupation throughout the project. The creation of Agencies was also likely to have a profound impact on the centres of Departments and generally on the residual Civil Service.

By October 1987, when Ministers reassembled for the new Session of Parliament following the general election, they were ready to endorse the proposals for twelve initial candidates for Agency status. Although not deliberately so chosen, these first candidates provided a good illustration of the diversity of government work. They ranged from the Queen Elizabeth II Conference Centre in the heart of Westminster with a tiny staff of only 65, to the huge national network of Employment Service offices employing over 35,000; and from the wholly commercial operation of Her Majesty's Stationery Office (HMSO), with an annual turnover of £400 million and competing with private sector companies for government Departments' stationery and publishing business, to the Meteorological Office - a unique, world-ranking centre of scientific excellence. They included public services which were household names, such as Driver and Vehicle Licensing and the Passport Office, as well as the Resettlement Units, of which few people had heard.

A Project Manager

Bringing about change on the scale of Next Steps in a large, established institution like the Civil Service takes an enormous effort of will and commitment. Without top-level direction and support, the impetus for change would soon evaporate, and the reforms would wither before they had a chance to deliver the required results. One of the essential ingredients in the Next Steps approach was the appointment of a high-ranking Project Manager to foster and focus that effort. It was agreed that a Second Permanent Secretary should be appointed to the Cabinet Office as Project Manager and Head of the Office of the

**T H E F I R S T C A N D I D A T E S F O R
A G E N C Y S T A T U S**

	Staff numbers
The Vehicle Inspectorate Statutory safety testing of road vehicles	1,600
Driver and Vehicle Licensing Licensing of road vehicles	5,400
Companies House Statutory registration of commercial companies	1,100
Employment Service Services and job placement for the unemployed	35,600
Meteorological Office National weather forecasting	2,600
Non-nuclear Research Establishments Defence research and technical services	15,000
Passport Office Issue of travel documents	1,000
Her Majesty's Stationery Office Printing, publishing and office supplies	3,245
Historic Royal Palaces Presentation and care of London's historic palaces	300
Royal Parks Care of London's Royal parks	600
Queen Elizabeth II Conference Centre Secure international conference facilities	65
Resettlement Units Hostels for those without a settled way of life	600

Minister for the Civil Service (OMCS). The Project Manager would report to the Prime Minister through the Head of the Home Civil Service. A project management approach to administrative change was unprecedented in the Civil Service, but it is generally agreed that this has been a key ingredient of the success of Next Steps.

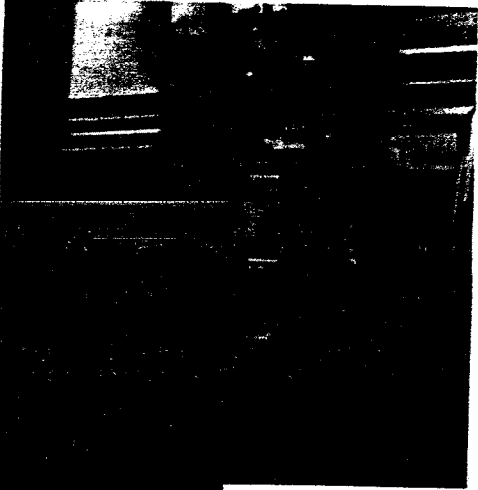
The Project Manager needed to have an intimate knowledge of the way that Whitehall works, and in particular an ability to deal with the Treasury's concerns. He also had to have a good understanding of the executive work of Departments and the way they are managed, as well as the frustrations felt by operational managers when trying to deliver results within the existing financial and administrative arrangements. It was important to gain the respect both of policy makers and of operational managers. A good relationship would also be needed with the unions, whose co-operation would be important in bringing about change without employee relations difficulties. Above all, the Project Manager had to be able to communicate the Next Steps message: across Whitehall; to people in Departments and prospective Agencies; to Parliament; and more widely to the public at large.

A senior Treasury official, Peter Kemp, was selected for the job. He had joined the Civil Service from the private sector, and was an accountant by training. His career had not followed the usual 'fast track' route through Ministers' private offices. He was known as a creative thinker, as well as a determined negotiator.

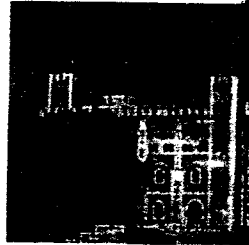


Peter Kemp

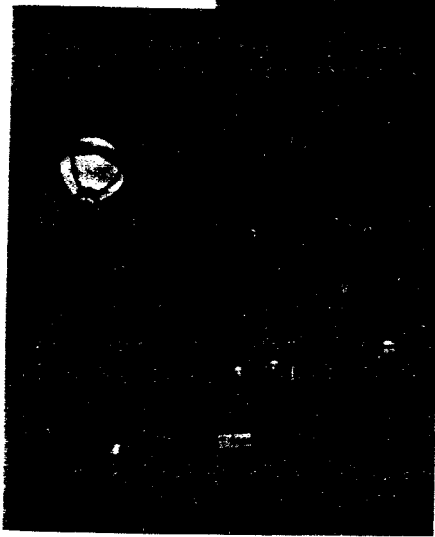
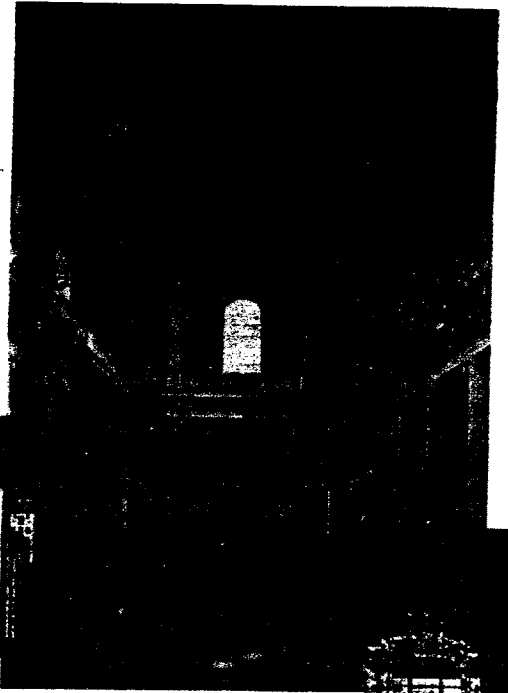
Some Next Steps Agencies at Work



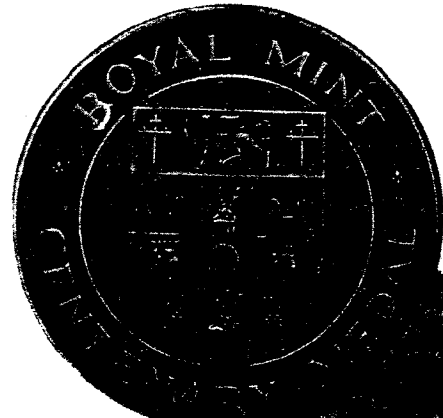
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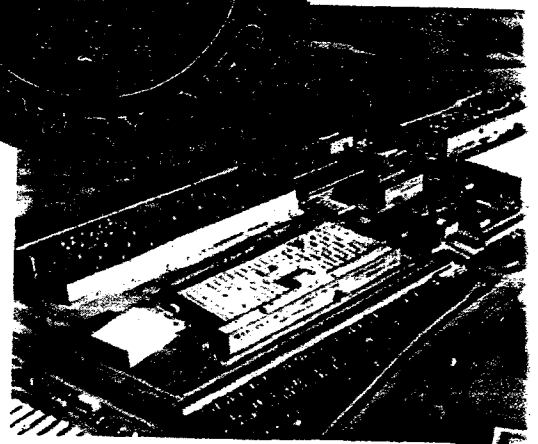
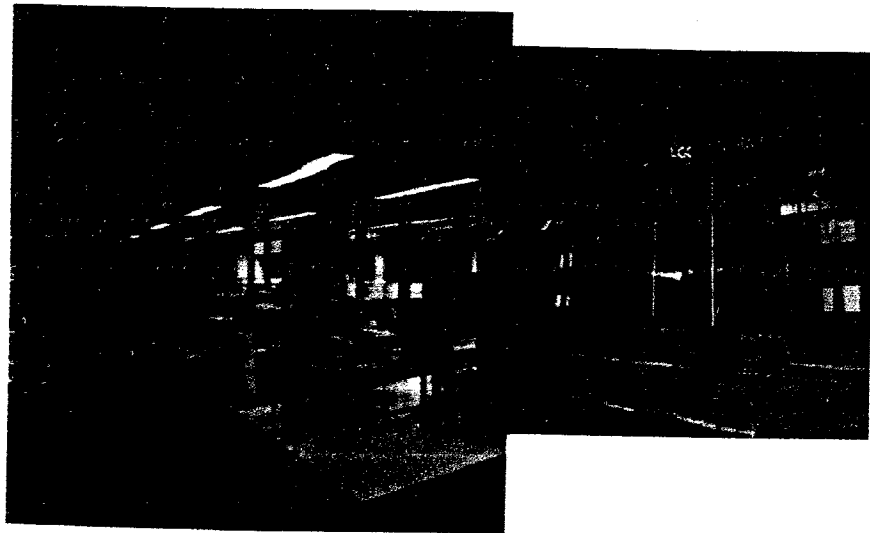
Historical Royal Palaces



Laboratory of the Government Chemist



Royal Mi



National Physical Laboratory

Ordnance Survey



A Selection of Framework Documents



framework
document

L A U N C H .

The announcement

By early 1988 there was considerable speculation among civil servants and in the press about the forthcoming changes. Inevitably, the speculation outstripped reality. There were rumours of large-scale privatisation and job losses; and about the break up of the unified Civil Service. The Prime Minister's announcement of the initiative in Parliament on 18 February 1988 firmly dispelled these ideas. She said that the Government had accepted the recommendation in the Next Steps report that:

“...to the greatest extent practicable the executive functions of Government, as distinct from policy advice, should be carried out by units clearly designated within Departments .. as ‘Agencies’. Responsibility for the day-to-day operations of each Agency should be delegated to a Chief Executive who would be responsible for management within a framework of policy objectives and resources set by the responsible Minister, in consultation with the Treasury.”

The Prime Minister said that the Government was committed to a progressive programme for attaining this objective. She added that Agencies would generally be within the Civil Service and their staff would continue to be civil servants.

THE PRIME MINISTER'S
STATEMENT TO THE
HOUSE OF COMMONS:
18 FEBRUARY 1988

I asked the efficiency unit to report to me on the progress of management reforms in the Civil Service. It has produced a report, "Improving Management in Government: The Next Steps". The report finds that many Civil Service managers want to see further changes to give more room and flexibility for the exercise of personal responsibility. The report recommends, first, that to the greatest extent practicable the executive functions of Government, as distinct from policy advice, should be carried out by units clearly designated within Departments, referred to in the report as "agencies". Responsibility for the day-to-day operations of each agency should be delegated to a chief executive. He would be responsible for management within a framework of policy objectives and resources set by the responsible Minister, in consultation with the Treasury.

It recommends, secondly, that the Government should commit themselves to a progressive programme for attaining this objective; thirdly, that staff should be properly trained and prepared for management of the delivery of services whether within or outside central Government; and, fourthly, that a "project manager" at a senior level should ensure that the programme of change takes place.

The Government have accepted these four recommendations, which will set the direction for further development of management reform in the Civil Service. Each agency will be accountable to a Minister, who will in turn be accountable to Parliament for the agency's performance. These agencies will generally be within the Civil Service, and their staff will continue to be civil servants. The Government will develop a continuing programme for establishing agencies, applying progressively the lessons of the experience gained.

The Civil Service unions will be consulted about the setting up of particular agencies. They will also be consulted if any change in terms and conditions of civil servants is contemplated.

The centre of the Civil Service must be organised in a way which is helpful to bringing about change. A permanent secretary in the Office of the Minister for the Civil Service will be responsible, through the Head of the Home Civil Service, to me for managing the process of change needed to implement the recommendations.

I have placed copies of the efficiency unit's report, together with a list of executive functions that appear to be promising candidates as initial agencies, in the Library and copies are available in the Vote Office.

Once announced, openness was to be a feature of the project. A press conference was held. Reactions were mixed: sceptics asserted that the initiative would fizzle out, killed by the forces of inertia and the sheer practical difficulties of making radical change in such a huge institution. Others thought that it might take off dramatically, breaking up the unified Civil Service and leading to large-scale transfer of Government activities to the private sector. Many ordinary civil servants were simply determined to make it work, believing that it offered potential for giving their 'customers' a better service, and for making their own jobs more satisfying.

Accountability to Parliament

Under the principle of ministerial responsibility, civil servants undertake their duties only in the name of Ministers who remain fully accountable to Parliament for all their Departments' activities. There were some who were concerned initially that Parliament might feel that making Chief Executives personally responsible for day-to-day management of their Agencies might appear to erode this principle. Early on, however, the all-party House of Commons Treasury and Civil Service Select Committee (TCSC) took the view that creating Agencies meant not abandoning the principle of ministerial accountability, but modifying it so that the Chief Executive who had actually taken the decisions could explain them, in the first instance. They said: "In the last resort, the Minister will bear the responsibility if things go badly wrong and Parliament will expect him or her to put things right, but the process of Parliamentary accountability should

allow issues to be settled at lower levels wherever possible.” This statement was very helpful in making clear that, provided the creation of Agencies involved only administrative change within the Civil Service, there was no threat to Parliamentary accountability. The TCSC then went further, calling for Chief Executives to be made more explicitly accountable for their performance by giving evidence themselves on behalf of their Ministers to Select Committees and by being formally designated as an Accounting Officer for the Agency, an appointment carrying responsibility for management as well as financial propriety.

Privatisation

Another early concern was how Next Steps fitted in with the Government’s policies on privatisation. The answer was that, before Agency status was considered, activities were examined for their suitability for privatisation or even abolition. “Suitability” implies not only that the activity in question has a saleable “product”, but also that the organisation concerned is marketable. Often, the second condition cannot be satisfied even where the first can: many Civil Service activities do not have the financial systems or business track-record to render them commercially attractive, although introducing more business-like arrangements could increase their marketability.

Candidacy for Agency status is not incompatible with privatisation, but the Government said that, where there is a firm intention to

privatise, this would be made clear when the Agency was launched, in order to remove uncertainty. Nor does establishing an Agency rule out the possibility of privatisation later, but it was generally accepted that after the investment of considerable effort in setting up the Agency, further immediate change was unlikely.

I M P L E M E N T A T I O N

The Scope for Agencies

No pre-determined limit was set on the extent to which the Agency approach was to be applied. The Project Manager's remit was the Prime Minister's statement that Agencies were to be set up "to the greatest extent practicable". The Next Steps Report had talked in terms of over 90% of the Civil Service being concerned with the delivery of services, but it was neither possible nor desirable to set a precise upper figure for the numbers of staff who would work in Agencies, nor to predict how long the Agencies would take to set up. The best course was to make a start and to move forward as rapidly as possible. That did not mean that the first candidates were to be regarded as a pilot exercise. They would be the first wave of a progressive programme: progressive in the sense both that they were the start of a continuing process of reform; and that the later Agencies would build on and extend the achievements of the front-runners. Dynamism was important. For individual Agencies, the launch was to be the beginning of a process of continuous development, not the final brick in an organisational restructuring.

The Project Team

The essence of the concept was that each Agency would be different, its structure and operations tailored closely to the needs of its business. There could be no single model. It was therefore important that the arrangements for each Agency should be devised by the prospective Agency itself and its parent Department. The Project Manager's role was essentially that of a catalyst, to develop the philosophy of Next Steps and to help Departments make the best use of it; not to do the job of setting up Agencies for them or prescribe how it should be done. The Project Manager began by asking Departments to draw up a list of potential Agency candidates and to identify future prospects. They were expected to look at all their activities and draw up a comprehensive programme. It was important that Departments should put forward their own proposals rather than have ideas imposed on them, although the project team was prepared to challenge their views when necessary.

The Project Manager had a very small team - initially only 3 people - to help him. There was a feeling of excitement and comradeship among those who were setting up the initial Agencies. They believed, as one Chief Executive later described it, that, in turning the Next Steps idea into reality, they were genuinely breaking new ground. The team's only authority was that conferred on them as the Project Manager's representatives, but their role gave them unique access to all parts of the Civil Service. Each member of the project team was assigned to a group of Departments and Agencies with whom they built up close contact. It was a two-way process: the team's knowledge of the

problems Departments were encountering in trying to set up their Agencies provided valuable feedback in developing further ideas.

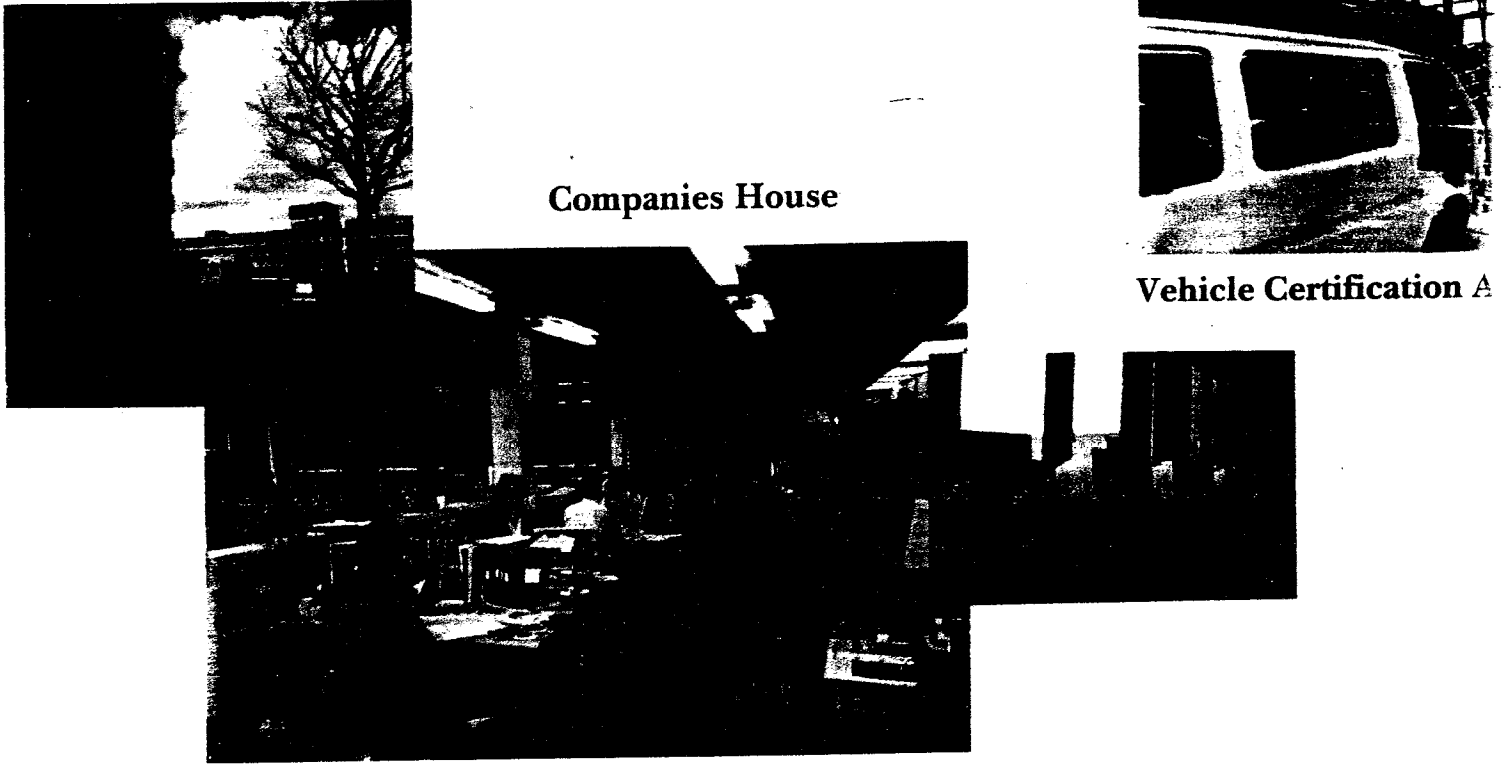
In addition to the team, the Project Manager set up two other groups to help him. Closest at hand was the Project Executive, a small working group from the central departments - the Treasury, the Efficiency Unit and the OMCS - which met weekly to think through some of the across-the-board issues as they came up, and to make sure that there was agreement about the way that progress was being made.

The Project Manager also met informally each month with the Project Liaison Group composed of senior representatives from the main Departments. Here, ideas could be exchanged before they were worked up into firm principles. This helped to involve Departments in the process of developing Next Steps policy and to get endorsement of the Project Manager's ideas. The aim was to foster support for and a sense of purpose about Next Steps at senior level.

There has been a valuable contribution, too, from individual business people, academics and professionals whom the Project Manager has also invited from time to time to comment on the work, and on occasion to participate in it at conferences and seminars.

Identifying and Setting up Agencies

Setting up an Agency involves several stages. It is necessary, first, to take a fundamental look at the work in question and to decide whether



Companies House

Vehicle Certification A

THE TIMES

The quiet revolution of Whitehall speeded up

MARGARET Thatcher is accelerating her quiet revolution of the civil service with plans for a further 30 government departments, comprising 21,680 staff, to opt out of the central Whitehall bureaucracy by becoming free-standing executive agencies.

The prime minister, as head of the civil service, is poised to create a permanent structure on the lines of the 1,300 civil service units that have already opted out to have their own chief executives, their own budgets and their own staff. The new units will be run on a commercial basis, with their own chief executives, their own budgets and their own staff.

THE TIMES

Whitehall 'must put customer first'

By David Butler
Whitehall must adopt a new philosophy of service to the customer, Mr Richard Leese, the Conservative MP, has said. He is calling for a new approach to the way the civil service is run, one that puts the needs of the public first.

THE DAILY TELEGRAPH, FRIDAY FEBRUARY 19 1988

The Daily Telegraph

11, MAZE HILL, LONDON E15 1SG Tel: 01-252 2200

Change for the better

EVEN before yesterday's announcement that the Government is to adopt a version of Sir Robin Ibbot's radical proposals for reforming the Civil Service, officials in the ranks were predicting an explosion of anger in response. Now that the plans have actually been made known, the reaction has been to obstructive assessments.

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THE TIMES

The Guardian Civil Service shake-up hits 70,000 jobs

The prime minister's plan to create 30 free-standing executive agencies will mean the loss of 70,000 jobs in the civil service, according to a report by the Guardian.

The report says that the new agencies will be run on a commercial basis, with their own chief executives, their own budgets and their own staff. The new units will be run on a commercial basis, with their own chief executives, their own budgets and their own staff.

THE TIMES

Keith Middlemas on how Whitehall could make itself more open

Keith Middlemas, a senior civil servant, has said that Whitehall could make itself more open to the public by adopting a new philosophy of service to the customer.

THE DAILY TELEGRAPH

First step to public trust

The first step towards restoring public trust in the civil service is to adopt a new philosophy of service to the customer, according to a report by the Daily Telegraph.

Press reaction to Next Steps

The press has reacted with a mixture of surprise and skepticism to the announcement of the Next Steps initiative.

Whitehall Watch: Peter Hennessy looks at the role of the executive agencies

Peter Hennessy, a senior civil servant, has said that the executive agencies will play a key role in the reform of the civil service.

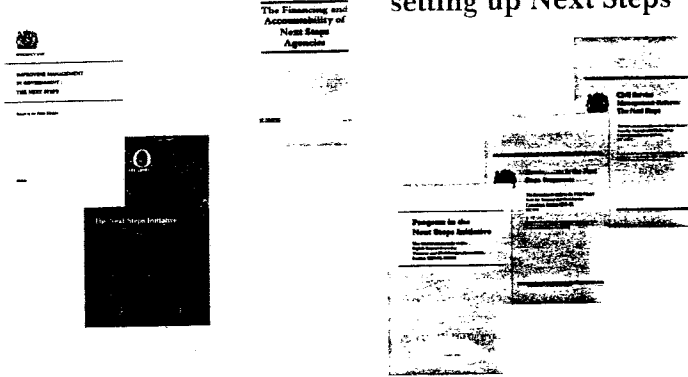
Treating citizens as consumers in the well-managed state

The well-managed state should treat its citizens as consumers, according to a report by the Daily Telegraph.

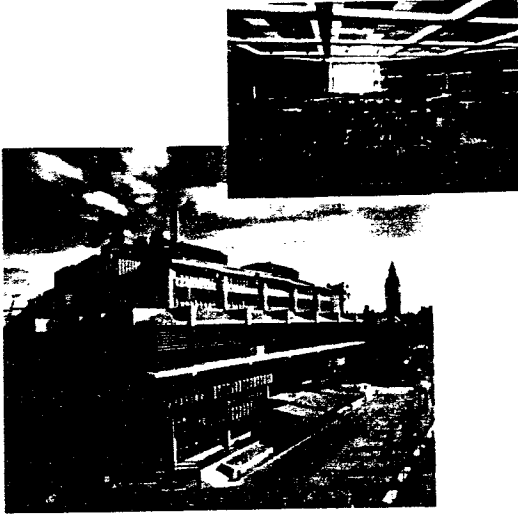
Change for the better

The report says that the new agencies will be run on a commercial basis, with their own chief executives, their own budgets and their own staff.

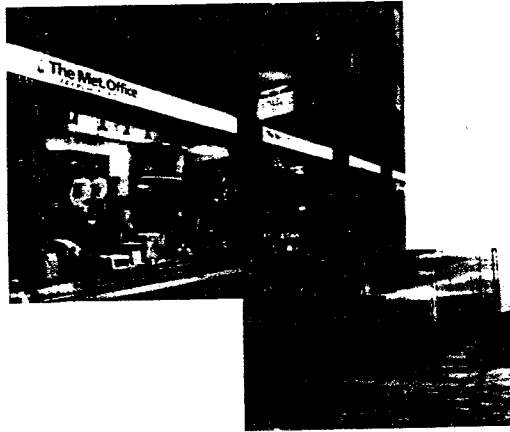
Reports - milestones in setting up Next Steps



Queen Elizabeth II Conference Centre



Meteorological Office



it needs to be done at all. If not, it can be abolished. If the work is to continue, Ministers must decide whether it could be better done in the private sector or, if it is to remain in government, whether it could be carried out by a private firm under contract. If Ministers decide that none of these alternatives is suitable, and that the function must remain a government service, Agency status is considered. There are no absolute rules about this. One factor to be taken into account is the extent to which the executive function can be separated from policy-making. The definition of what constitutes "policy" as opposed to "executive" work was a matter of some discussion initially but, as with many aspects of Next Steps, it has not proved difficult when dealt with pragmatically, case by case. In practical terms, although Ministers are responsible for all the functions of their Department, a great deal of work does not routinely require their direct involvement. On this basis, a very high proportion of government activities can, in principle, be run on an agency basis.

Size is neither a barrier to nor an indicator of suitability for Agency status. The first 12 candidates included the Employment Service with over 35,000 people, and the Queen Elizabeth II Conference Centre which accounts for only 65. There is a managerial, financial and operational separation between an Agency and its parent department, although the degree will vary. In some cases, such as the Passport Office, there is an income from customers which can pay for the service, wholly or in part, without depending for resources on the parent Department. In other cases, such as the distribution of state unemployment benefits, there can be no possibility of charging for

services, but it is nonetheless possible to envisage setting a financial limit within which the Agency has the freedom to manage without recourse to the parent department.

Framework Documents

Framework documents are a key component of the Next Steps approach and a great deal of time and effort is spent in getting them right. They are the tangible sign of the Agency's status and of the Chief Executive's independence. They reflect, in style and substance, the individual nature and tasks of the organisation concerned. They are published, for the information of Parliament, staff, customers and the wider public. They make an important contribution to more open government and to making quite clear where responsibilities lie. Although not legal documents they contain certain durable elements which underline the two-sided nature of the relationship between the Chief Executive and the Minister. These include:

- the Chief Executive's responsibility to Ministers
- the Agency's aims and objectives
- the services provided
- the financial arrangements, including financial objectives, planning, reporting and accounting
- pay and personnel arrangements

The documents are reviewed at regular 3-year intervals and more frequently if policy or other changes require it.

Writing the framework document has become the instrument for devising and negotiating the Agency's management arrangements, and calls for much hard thinking about the nature and role of the organisation. In principle, Agencies should have the maximum possible freedom to manage. Some Chief Executives develop 'wish lists', drawn up in consultation with their staff, of the changes they believe they need to improve their businesses and therefore 'wish' to see introduced. Items on these lists range from the freedom for the Agency to purchase its own reprographic equipment, to providing additional services on Saturdays; from group productivity schemes to a completely new pay and staffing structure.

The Treasury's concern was - and remains - that Agencies should be set up on a sound basis which ensures proper and enduring control of public expenditure; and the delivery of demonstrable improvements in performance. The Treasury looks at Agency proposals rigorously in order to ensure that:

- the level of resources to be made available is appropriate for the task;
- there are adequate financial management and control systems, and satisfactory planning, reporting and accounting arrangements;

- initial performance targets are set by Ministers for the improved results, both financial and quality of service, which Agency status are expected to deliver, and that there are satisfactory ways of measuring them.

Agencies are expected to bid ambitiously for authority and freedom to manage, but their proposals must be soundly based. Setting up an Agency is intended to bring about a tangible improvement in efficiency and effectiveness, but the Agency creation process must not be so daunting that Departments are deterred from embarking upon it. Without real change, all that will result is what the Project Manager described as 'badge engineering' - changing the label but leaving the product untouched.

Chief Executives

The role of the Chief Executive is central to the success of Next Steps. Chief Executives are expected to be different from the traditional breed of civil servant. They will have a higher public profile than most other civil servants, even though some of them will be relatively junior in conventional terms. Many of the qualities and skills required, including proven management ability and business competence, are similar to those required of the head of a successful commercial business, and it was expected that some Chief Executives would be recruited from outside the Civil Service.

On the other hand, a criticism in the Ibbs Report had been that most

senior civil servants lacked management experience; and fundamental to the Next Steps philosophy was the view that there should be a widespread interchange of staff between the centres of Departments and Agencies. If in future the road to the top was to include successful management experience, many Chief Executive posts would have to be filled by insiders. In order to be sure of getting people with the necessary qualities, therefore, it seemed right to open up recruitment to as wide a field as possible and thus, in most cases, to advertise openly so that civil servants and outsiders could both apply. Increasingly, open competition is the normal method of recruiting Chief Executives. So far, there have been 28 open competitions, from which 14 of the Chief Executives have been appointed from outside the Civil Service. The occasional recruitment of outsiders for special jobs had in fact been going on steadily for several years, and a further 6 Chief Executives had already been appointed in this way before their organisations became Agencies. Open competitions have also been held for some jobs within Agencies, such as Directors of Finance, and Marketing.

Chief Executives are appointed on individual terms which may be different from the standard Civil Service remuneration package. They are all appointed for a fixed period. In individual cases, higher than normal pay may be needed in order to attract someone with the necessary skills and experience, but individual salaries above the standard rates will not be allowed to lead to a general "ratcheting up" of pay for senior civil servants. The remuneration package has to be what is needed to get the right person for the job. Moreover, reflecting

the fact that Agencies will be set, and expected to meet, demanding targets. all Chief Executive salaries are expected to contain a substantial performance related element. The principle is 'more risk, more reward', but the size of the package and the nature of the performance related element has to be worked out case by case.

Financial Régimes

Control over resources is essential to give Agencies real authority to conduct their own affairs, so making sure that Agencies have appropriate financial régimes has been central to the Next Steps programme. At the same time, there must be firm limits on the call that Agencies make on public funds. The Chief Executive must be personally responsible for ensuring the control of public expenditure. Most Agencies agree corporate plans annually with their Departments and the Treasury. Many Agencies which cover all or most of their costs from receipts want to be able to use those receipts to finance additional capacity to meet increased demand for services. As early as April 1988 the Project Manager set out his proposals to the Treasury for special financial régimes for Agencies. He suggested that they should all have full cost income/expenditure accounts, and that activities which were, or aimed to become self-financing should operate as trading funds. A trading fund is a concept introduced in the 1970s, which provides a financial framework covering operating costs and receipts, capital expenditure, borrowing and net cash flow. It is required to break even, taking one year with another, and to make a return on capital, and has powers to borrow to meet capital expenditure and working capital requirements.

and to establish reserves out of surpluses. Within this framework it can meet outgoings without detailed cash flows passing through Parliamentary Vote accounting arrangements. In other words it operates like a Government-owned company. Where a trading fund is unsuitable, an Agency's expenditure should be contained within an 'Agency financial limit'.

It soon became clear that the 1973 Trading Funds Act needed to be extended to cover the monopoly and statutory services of many Agencies. The Treasury and the Project Team began work in May 1988 to put forward proposals to Ministers to amend the legislation and the Treasury rules on the control of running costs to give Chief Executives more meaningful financial control of their Agencies. They also developed proposals to give Parliament, customers and others, more information about Agencies' objectives and performance by requiring all Agencies to publish commercial-style reports and accounts at the end of their financial year. The policies resulting from this work were set out in the white paper "*The Financing and Accountability of Next Steps Agencies*". The necessary legislative backing was obtained in the Government Trading Act 1990 which amended the 1973 Act.

Pay and Personnel

Most Agencies seek and are given some delegated authority for personnel management. Departments often wish to retain control over the careers of senior staff, however, whom they see as a departmental rather than an Agency resource. Of the first Agencies, both the Vehicle

Inspectorate and Companies House have introduced performance bonus schemes for their staff; and HMSO have undertaken a major restructuring exercise which resulted in breaking away altogether from standard Civil Service pay and grading.

More are following these early leads. But Agencies have generally been slower to seek change in this area than on some other aspects of Next Steps. It had been thought that Agencies would press at an early stage for more freedom to 'hire and fire' staff and to develop their own pay arrangements. In the event they have not asked for radical changes initially. This seems be partly because, in preparing Agency proposals, the negotiation of the financial régime has tended to predominate. Moreover Departments, concerned about maintaining departmental cohesion, are sometimes reluctant to pass on to Agencies the authority which has been delegated to them by the central Departments (Treasury and OMCS). But a number of Agencies are now taking an in-depth look at the people and skills they will need to make a success of their businesses in the future; and to decide how best to obtain these. Over time, this is likely to lead to more tailor-made schemes.

MAKING PROGRESS

Support at the top

Making progress can be difficult after the initial energy associated with the launch of a new project has worn off. In the case of Next Steps, a number of factors have combined to maintain the impetus. One of the most important has been the continued personal interest of the Prime Minister. Mrs Thatcher discussed progress regularly with the Project Manager, and Mr Major has continued these meetings. They are supplemented by the Project Manager's personal six-monthly written reports which are sent to Ministers. Another crucial ingredient of success has been the backing of the Head of the Home Civil Service, who speaks frequently and publicly in its support. This commitment gives the project legitimacy and authority which adds considerable impetus to its progress.

Parliament

The TCSC has taken an interest in Next Steps from the outset, as was to be expected, given the initiative's potential impact on the structure of the Civil Service and on the control of public expenditure, not to mention the possible implications for Parliamentary accountability. The TCSC's hearings have drawn attention to the Project, and its reports, and the Government's written replies to them, have provided

a means of setting out publicly and developing some of the aims and principles. For, although the Government was firmly committed to implementing Next Steps, the policy itself was not publicly set down anywhere in any detail. Indeed, Sir Robin Ibbs' Report had described an idea, and sketched out - but no more - how it might be put into effect, so the policy had to be developed in the light of progress.

Spreading the Word

Openness has been one of the hallmarks of the Project from the outset, and getting the Next Steps message across widely and strongly inside and outside the Civil Service is very important. From the start, the Project Manager was willing to brief the press, in particular the Whitehall correspondents who report on Civil Service matters on a regular basis. This openness has been extremely successful. Some journalists who were sceptical initially have become convinced that Next Steps is a reform which will endure. The press coverage has fed back positively to boost the Project's credibility, particularly among the wider audience of civil servants who are sometimes cynical about the messages received from senior management.

Spreading the word is an important element of the Project Team's work. The aim is to convey the message with vigour and commitment, in order to foster enthusiasm for Next Steps among those who are instrumental in getting it off the ground and making it succeed. These include both those in potential Agencies, and those in the centres of Departments who control the managerial tools that are needed. Building

networks to share experience has been very important. The Project Team holds regular short residential conferences from time to time where representatives of Agencies and, sometimes, of their parent Departments meet to discuss some of the problems. These are lively and productive occasions, with the emphasis on developing practical solutions rather than indulging in theorising. They also foster a sense of comradeship which extends beyond the conferences themselves. Supplementing these are seminars to work on particular topics. The Project Manager also meets regularly with Chief Executives to hear their views. The Civil Service College provides a range of courses on Next Steps, and the team frequently speak on courses and seminars. Two videos were made, the first to explain the aims of Next Steps and how it was to be implemented; the second, a year later, to take a look at the first Agencies. In addition there are regular news sheets, information booklets, and contributions to academic and other journals. In these ways, the Next Steps profile is kept high both inside and outside the Service.

Realism

A sense of purpose was needed among those who were creating Agencies, but it was important, too, not to raise expectations too high about how much freedom to manage Agencies can have. One of the tough messages about Next Steps is that 'freedom' does not mean a lack of discipline. Improvements must result from new flexibilities. Agencies also have to demonstrate that they are competent to handle the additional responsibilities. For Departments on the other hand.

the equally tough message is that they should take a 'hands off' approach to Agencies. Robust targets, clearly defined and properly controlled resources, and effective incentives to improve performance, will make it easier to hold managers to account for their performance without interfering in the detail, and will strengthen Parliamentary accountability, rather than erode it.

Milestones

There were a number of important milestones in the first year of the project. In his appearance before the TCSC in May 1988 the Project Manager expressed the hope publicly that three quarters of the Civil Service could be working in Agencies within ten years. The prediction caught people's imagination. No limit had ever been publicly set to the creation of Agencies, but three quarters of the Civil Service seemed to be an ambitious figure. The prospect of the majority of the civil servants working in Agencies meant that what some people had thought of as an exercise mainly concerned with peripheral activities suddenly moved centre stage. The pace of progress seemed to confirm this view. By the end of July 1988, there were 29 candidates for Agency status and a further 37 activities under consideration. Among these was the entire Social Security operation, significant both because of its size and because it was an activity so integral to the parent Department.

The first Agency, the Vehicle Inspectorate of the Department of Transport, was launched on 1 August 1988, five months after Next Steps was announced. The second, Companies House in the Department

of Trade and Industry followed on 1 October 1988. It was no coincidence that these two candidates were the first. Both had been selected because they already bore many of the characteristics of an Agency, and had made substantial progress towards greater financial and managerial autonomy. Moreover, both were headed by prospective Chief Executives who were enthusiasts for Next Steps and had proven management skills.

C O N C L U S I O N

Performance and quality

At the time of writing, there are 50 Agencies as well as other units operating on Next Steps Lines. Next Steps now covers 210,000 people, almost half of all civil servants. In 3 years, it has come a very long way. But Next Steps is not simply about setting up Agencies; they are only a means to an end. The aim is to manage the delivery of services better, for the benefit both of the customers who receive the services directly and of the taxpayer who provides the resources for them. As is now widely recognised, public sector managers have a special responsibility for providing good quality services because, unlike the commercial world, their customers rarely have a choice about using the services. Every Agency is set up with published targets for improving financial performance and quality of service, so that Parliament and the public knows what results to expect. Subsequently, the results actually achieved are published in the Agency's annual report. Targets and some results for the early Agencies were published in the first Agency Review in October 1990.

Lessons learned

Next Steps is teaching the British Civil Service a great deal about introducing management change. We have found that effective.

practical proposals for reform should originate from those who have the most direct responsibility for bringing them about, ie those working within the services concerned. Only in this way will those who are responsible for making the changes feel that they own them and are committed to them. At the same time, there needs to be an injection of energy and expertise from an organisation - in this case the Next Steps project team - with exclusive commitment to the success of the project, to prevent old ideas from being recycled and to help break down internal barriers to progress.

Implementation must be a prime consideration in developing and introducing proposals for reform. This does not mean watering down radical ideas or to trying to work out perfect solutions in advance. It means putting the necessary time and effort into working out how the changes are to be achieved. Above all, reforms that will work in practice and produce results must be based on detailed knowledge of what actually happens in an organisation, not on theories about what should be happening.

A G E N C I E S E S T A B L I S H E D B Y

M A Y 1 9 9 1

Building Research Establishment	690
Cadw (Welsh Historic Monuments)	220
Central Office of Information ¹	730
Central Veterinary Laboratory	580
Chemical and Biological Defence Establishment ²	580
Civil Service College	210
Companies House	1,150
Defence Research Agency	11,700
Directorate General of Defence Accounts ²	2,100
Driver and Vehicle Licensing Agency	5,450
Driving Standards Agency	2,050
Employment Service	5,600
Forensic Science Service	580
Historic Royal Palaces	300
Historic Scotland	580
HMSO ¹	3,300
Hydrographic Office ²	880
Insolvency Service	1,450
Intervention Board	910
Laboratory of the Government Chemist	320
Land Registry	10,400
Meteorological Office	2,250
Military Survey ²	850
National Engineering Laboratory	430
National Physical Laboratory	820
National Weights and Measures Laboratory	50
Natural Resources Institute	390
National Health Service Estates	120
Occupational Health Service	100
Ordnance Survey	2,500
Patent Office	1,150
Queen Elizabeth II Conference Centre	70
Radiocommunications Agency	500
RAF Maintenance ²	5,700
Rate Collection Agency (Northern Ireland)	280
Recruitment and Assessment Services Agency	320
Registers of Scotland	1,100
Royal Mint ¹	1,050
Scottish Fisheries Protection Agency	230
Service Children's Schools (North West Europe) ²	2,300
Social Security Benefits Agency	68,000
Social Security Contributions Agency	6,600
Social Security Information Technology Services Agency	3,350
Social Security Resettlement Agency	510
Training & Employment Agency (Northern Ireland)	1,700
U.K. Passport Agency	1,200
Vehicle Certification Agency	70
Vehicle Inspectorate ¹	1,650
Veterinary Medicines Directorate	70
Warren Spring Laboratory	320
50 in number	183,460
Customs & Excise ¹ (30 Executive Units)	26,800
	210,260

¹ Trading Funds

² Defence Support Agency. Figure does not include service personnel.

³ Moving towards full operation on Next Steps lines following publication of Framework Documents.

**NEXT STEPS - ACTIVITIES
ANNOUNCED BY DEPARTMENTS
AS UNDER CONSIDERATION AS
OF MAY 1991**

Agricultural Development Advisory Service Agency	2,500
Agricultural Scientific Services ¹	130
Central Science Laboratory	340
Central Statistical Office	1,050
Chessington Computer Centre	440
Child Support Agency ²	not yet known
Fire Service College ¹	200
Fuel Suppliers Branch	30
Medicines Control Agency ¹	350
Pesticide Safety Division ¹	160
Planning Inspectorate	570
Pollution Inspectorate	230
Property Holdings	1,650
Public Record Office	430
RA ³ Training ³	2,500
Royal Parks	600
Teachers' Pensions Branch	300
The Buying Agency ⁴	120
Transport Road Research Laboratory ¹	580
Valuation Office	5,250
Youth Treatment Service	210
Ordnance Survey (Northern Ireland)	200
Social Security Operations (Northern Ireland)	5,000
23 in number	22,840
Inland Revenue ⁵ (excl. Valuation Office)	59,800
	82,640

¹ Current Staffing figures.

² From 1 April 1993 the Agency is estimated to require 4,500 staff, 1,500 of which will come from the Social Security Benefits Agency.

³ Defence Support Agency. Figure does not include service personnel.

⁴ Trading Fund.

⁵ Moving towards full operation on Next Steps lines in accordance with the Action Plan of February 1991: 33 Executive Offices by April 1992.

Many other areas are under consideration.