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THE IMPACT OF AGENCIFICATION ON POLICY OUTCOMES: AN EMPIRICAL AND THEORETICAL INSIGHT INTO 'ARM'S LENGTH' GOVERNANCE

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GOVERNING AT ARM'S LENGTH: NEXT STEPS AGENCIES AND POLICY OUTCOMES

The development of 'Next Steps' agencies (NSAs) to deliver many Government policies at arm's length is described as part of the 'hollowing out' of the British central state and can be characterized as an example of multi-level governance. This paper explores the impact these new institutional arrangements have had on policy outcomes. Using the analytical concepts of historical institutionalism and policy networks it argues the transfer of resources create changed power dependent networks between minister, department and agency operating under both formal and informal 'rules of the game'. These new institutional arrangements have had intended and unintended impacts on policy outcomes. Firstly agencies had greater power potential in the networks permitting a greater input to the policy process. Secondly the level of integration in the network related to how well the new arrangements were understood and consequently how well policies were delivered. Thirdly the development of policy preferences in some networks was identified. Finally in some networks the development of further institutional change was impeded. The paper concludes by suggesting these findings may prove helpful in considering the impact of partnership arrangements on policy performance more widely.

Introduction

The introduction of NSAs to deliver policy at 'arm's length' has had a profound effect on the way in which central government operates. Agencification involved a move away from a hierarchical organizational structure in government departments, to one which was described as a 'core-periphery' model (Metcalf and Richards, 1990). It is thirteen years since the publication of the Ibbs Report which set out the idea of separating policy making from implementation through agencies under a quasi-contractual agreement (Efficiency Unit, 1988). Currently the number of agencies has grown to over 100 and 75% of civil servants work in agencies (Cm 4658, 2000). The idea of agencification is one which appears to have an increasingly widespread international significance (Pollitt et al forthcoming).

In the UK agencification does not involve partnership with the private sector. Agencies remain within the remit of their parent department and employees remain civil servants. Some agencies have moved into the private sector but surprisingly few (Gains, 1999). Agencies do not hold a separate democratic mandate unlike partnerships involving other tiers of government. Ministers remain accountable for the actions of agencies and Agency Chief Executives (ACEs) remain accountable to ministers. Nevertheless, NSAs are an example of multi-level governance. Rhodes saw agencies as part of the ‘hollowing out of the state’ (1994, 17) and for Lewis they established a “new way of governing” (1993).

This paper examines the experience of seven agencies operating in three departments since their establishment. The paper sets out how the changed institutional arrangements created new power dependent networks arising from a changed pattern of resource exchange. It seeks to explore how these new institutional arrangements operated in practice and the impact of agencification on policy outcomes. In so doing it is hoped to provide insights into the impact on the policy process of partnership arrangements arising from multi-level governance.

The introduction of NSAs in the UK

The introduction of agencies was one of a long line of reforms aimed at improving management in government. The Ibbs Report argued the existing organization of the civil service was geared towards prioritizing its policy responsibilities towards ministers, neglecting service delivery and that ministers were too overloaded to provide the level of management attention required. The report proposed agencies should deliver executive functions of government “within a policy and resources framework set by a department” (Efficiency Unit 1988 2). The Report’s recommendations involved a change in roles and a transfer of resources. Under the new arrangements ministers would remain responsible for setting the policy framework and would remain accountable to Parliament. Departments would maintain their traditional policy support role offered to ministers but would have to develop new roles establishing and managing a policy and resources framework with agencies. Departments would no longer be responsible for delivering those services identified as suitable for delivery at arm's length.

In the new agencies, ACEs, who could be appointed on short term contracts and possibly from outside the civil service, were responsible for the delivery of policies outlined in the framework document and annual performance targets. ACEs would be accountable to ministers for these responsibilities, but in general were to operate with more managerial freedom and flexibility than hitherto. The extent of these flexibilities gradually increased (see Gains, 2000). Sir Peter Kemp, the first next steps project manager described the new arrangements as “a move from management by command to one of management by contract” (Kemp 1990 28).

Despite the quasi-contractual nature of the reforms, accountability arrangements remained largely unchanged. The Ibbs Report recommended the establishment of a new convention that ACEs would have delegated authority from their ministers for operations of agencies. Initially this led to ACEs replying directly to MPs inquiries. Nevertheless, fundamentally the new arrangements did not alter the doctrine of ministerial responsibility. Agencies remained part of departments and ACEs could give evidence to select committees but had to operate under the Osmotherly rules. The idea of agencification was ambiguous and permitted differing interpretations to flourish of the extent of managerial freedom and the meaning of accountability (See Gains 2001). Particularly in politically salient agencies there was a tension between the idea of a split between policy and operations and traditional accountability arrangements (Gains forthcoming a). For many commentators this tension was likely to cause problematic implementation of government goals (Dudley, 1994; Chipperfield, 1994, 12). The Benefits Agency was thought to be the agency most likely to expose difficulties (Treasury and Civil Service committee, 1989 HC 348; Flynn et al 1990, 174; Greer, 1994, 90; Woodhouse, 1994, 252). The very public difficulties faced by the Child Support Agency and the Prison Service Agency appeared to bear out this concern.

Difficulties in assessing the impact of agencification

Work assessing the impact of this example of multi-level governance was difficult to assess. Over the first years of the agencification there was very little empirical work done on its impact especially of a comparative nature. Much of the literature was speculative or anticipatory. The empirical research involved single case studies or comparative work within one department (O'Toole and Jordan, 1995; Greer, 1994) and pointed to the need for a comparative case study looking across departments (Rhodes, 1997, 107). The disparate nature of findings made it difficult to judge what effect agencification had had on the operation of policy and policy outcomes. Some argued the development of agencies had moved away from a hierarchical model and created a client contractor relationship (Greer, 1994), yet for others the new arrangements did not go far enough (Foster and Plowden, 1996, Public Service Committee, 1996, HC 313, 124 & 130). In part this reflected conceptual weaknesses with early assessments of the agency experience.

Much of the literature draws on descriptive and prescriptive models. The politics and public administration assessed the change by how far it deviated from and impacted on traditional constitutional practices (Giddings, 1995, Greer, 1994, Plowden 1994; Wilson and Barker 1995). The more managerialist literature and most government sponsored investigations looked at the deviation of the agency concept from the kind of private sector (principal – agent) models which influenced it (Efficiency Unit 1991, Mellon 1993; Brooke and Bate, 1994; Horton and Jones, 1996; Davis, 1994). While normative questions about the accountability and autonomy of agencies are key, there are difficulties in analyzing change in relation to descriptive and prescriptive models. Firstly, the impact of agencification cannot be viewed as being uniform. Any assessment of the impact of next steps needs to accommodate the diversity of the experience (Hogwood, 1993). In some areas of government more traditional arrangements may be found, in others more marketized relationships may have developed. Secondly a particular problem in viewing the impact of agencification from either a traditional constitutional approach, or a principal agent approach, puts a focus on the relationship between ministers and ACEs. Both normative understandings see the minister as setting the policy framework either as the elected official at the head of the departmental hierarchy or as the 'principal'. The Ibbs Report underplayed the policy making role of departments and instead highlighted the

constitutional understanding that ministers – aided by their departments – set the policy framework. In fact these normative understandings may downplay the involvement and importance of departments in the policy process (Smith et al, 1993; Barberis, 1995).

To address these conceptual weaknesses the research here drew on ideas from the literature on historical institutionalism and on policy networks to approach an understanding of the impact of agencies on the policy process. These approaches assist by permitting a dis-aggregated analysis and including departments in the analysis. They allow for a more analytical approach to assess the impact of agencification on the policy process and in understanding why there were problems in implementation.

An analytical approach to studying the impact of agencification – historical institutionalism, power dependency and policy networks

Historical institutionalists emphasize the institutional influences on political and policy phenomena and the importance of ‘organizational factors in public life’ (Hall and Taylor 1996; Evans, Rueschemeyer and Skocpol 1985; March and Olsen 1984). They argue the existing formal and informal institutional arrangements provide opportunities to facilitate change, and form constraints on change, in response to exogenous and endogenous factors. ‘Path dependency’ in historical events is suggested as existing institutional arrangements both create opportunities for and constrain future change through existing state capacity and policy legacies, or the operation of policy paradigms, within which policy makers operate (Weir and Skocpol 1985; Hall 1993). Previously theorists have stressed continuity in institutions with change occurring only at critical junctures where the existing institutional arrangements are discredited and new paradigms emerge (Hall 1993, 942). More recently however, work has focused on the nature of incremental change (Cortell and Peterson, 1999). Research work examining changes in central government have drawn on this body of work to look at policy making in departments (Richards and Smith 1997), at how Whitehall adapted to participation in the European Union (Bulmer and Burch 1998) and at the introduction of market testing to central government (Newman, Richards and Smith 1998).

Institutional arrangements arise both from the formal organizational and constitutional set-up, which determines roles, rules and the allocation of institutional resources, and from informal understandings that structure, influence and guide behavior and policy outcomes. Analysis of the introduction of agencies from a historical institutionalist perspective is set out elsewhere (Gains 2001). This argues that the institutional arrangements pre-agency, described as 'management by command', led to close informal networks such as identified by Hecló and Wildavskys' famous study of the Whitehall Village (Hecló and Wildavsky 1981). The community of political administrators which Hecló and Wildavsky researched operated under the 'Whitehall model' with the attendant formal and informal rules and beliefs which structured their actions and decisions. These include the acknowledgement of parliamentary sovereignty most particularly exercised through the doctrine of ministerial responsibility, an organizational culture based around the Haldane principles and uniformity across the service, and (in some cases) an organizational structure based around hierarchical, pyramidal departments. The roles of politicians and administrators, the institutional rules and appropriate behavior was understood and shared by all parties.

Change to these institutional arrangements came in response to both exogenous and endogenous factors. Exogenous factors included the economic and ideological pressure for change stemming from new right thinking and technological change (Greer, 1994). Endogenous change pressures came from the political and managerial critiques of the 'Whitehall model' (Foster and Plowden, 1996). The introduction of 'management by contract' through the agency concept has altered the organizational structures and cultures of central government. It is argued here the introduction of a policy operational split, formalized organizationally and supported by changed accountability, financial and personal arrangements, has led to a change in the formal and informal institutional arrangements and that those arrangements reflect path dependency in their development. Path dependency is witnessed in the reallocation of resources. Which agencies were established and when, reflected the pre-history of those functions or existing 'state capacity' in these areas. Variation in the organization of departments existed and influenced structural changes arising from agencification. These structural changes were also influenced by the existing policy preferences of policy makers, civil servants and politicians in each policy area influencing the decision making about what is appropriate and possible to move to agency status. Path dependency was also found in the changes to the rules of the game and role expectation heralded by agencification. The introduction of the agency concept introduced new rules and norms of behavior but existing informal rules and norms were maintained.

The research also draws on the concept of power dependency and policy networks to analyze relationships and their impact on the policy process following agencification. Marsh and Rhodes suggest that the exchange of resources required to meet government goals creates power dependent networks (Marsh and Rhodes, 1992a). Networks vary along a continuum depending on their membership, integration, the resources exchanged and the consequent power dependency. Networks form both inter-governmentally, and intra-governmentally (Marsh and Smith 1995). The use of the notion of resource dependency has been applied to analyze central – local relations (Rhodes, 1988), relationships between the Treasury and the central state (Thain and Wright, 1995) and to describe relationships between actors in the core executive (Smith, 1999). The power dependency relationship is acknowledged to be analytically helpful even by the strongest critics of network approaches (Dowding, 1995).

More controversially, network theorists suggest networks affect outcomes firstly because close networks shape agendas, secondly because where there is no consensus in the network, implementation problems may occur (Smith, 1993; Marsh and Smith, 1995; Marsh and Rhodes, 1992b). Critics of the concept of policy networks do not agree it is an explanatory concept seeing it as a purely descriptive tool. The link between network characteristic and policy outcome is disputed (Dowding 1995, 2001). The research on which this paper draws seeks to address that critique using a multiple case study which considered different dimensions of the networks to see which aspect is driving the explanation.

This paper argues that the changed institutional arrangements established a more explicit exchange of resources between ministers, supported by their departments, and agencies. The different basis for the exchange of resources has led to the development of changed power dependency relationships between agencies and departments and the creation of new networks. Within a broader institutional framework, networks in turn further acted to facilitate or constrain change acting as ‘institutions’ within institutions. Characteristics of these networks are linked to policy outcomes. The next section of this paper will look at the agencies and their goals then at how the concept of power dependency and policy networks was operationalized before highlighting key findings from the research.

The departments and agencies researched and their goals

The research examined agencies in three departments, the Department of Trade and Industry (DTI), the Department of Social Security (DSS) and the Home Office who had 20 agencies in total. Seven case study agencies were chosen representing different background, size, method of financing and type or goal. As Mackie and Marsh (1995) observe there is always a trade off between detail and generalisability and the choice of agencies is problematic. These seven agencies between them represented a good spread of variables.

The DTI is said to combine both a strong free trade and an interventionist ethos stemming from its formally historically separate culture of the Departments of Trade and Industry. It took an active approach towards developing agencies and by 1992 had ten agencies with over 50% of staff working in agencies. The Department had a corporate style to managing its relationships with the agencies involving the creation of management boards staffed by a strong DTI presence.

Companies House keeps a record of company information and makes that information available to the public. Charges are levied with those for the provision of information limited by statute. It is operating in a rapidly changing technological market and has customers who are also competitors. It was the second agency to be established with an externally appointed ACE. The work of the agency was entirely executive and it had a separate pre-existing HQ where most staff were based in Cardiff. The Laboratory of the Government Chemist (LGC) provided chemical analyses in support of government legislation acting as arbiter of last resort in disputed cases. When established it was a self-funded, non-monopoly research establishment with clearly identified customers and charges. Most customers were other government departments. Following protracted negotiations the agency was privatized in 1996 to a staff buy out. The Chief Executive of this enterprise currently holds the role of Government Chemist on a short-term contract. The Insolvency Service has considerable statutory duties overseeing bankruptcies and company liquidations and some policy capacity. The work is 'demand led' and the agency is vote funded.

The DSS is unlike many departments in delivering directly services to the public. Initially the DSS was enthusiastic about the agency project as it linked with management reforms already being developed (see Gains 2001). The Department's policy and operational arms had traditionally been close and well integrated and this close relationship was maintained following the creation of agencies through the establishment of a Department Management Board attended by the ACEs. By 1992 it had 98% of its staff located in agencies. This followed the transfer of its former operational arm to become the largest NSA, the Benefits Agency, which employed 66,000 staff (Benefits Agency Framework Document, 1991). A year later, the only entirely new NSA, the Child Support Agency was set up to administer new child support legislation. Both the ACEs of these agencies were external appointments.

Until reorganization in the mid 1990s the Home Office was organized into separate divisions which operated autonomously and decision making was vertically segmented. It had no corporate or co-ordinate response to the agency idea. There was a traditional policy culture which was antipathetic to management reform (Gains 2001). The Home Office's response to agencification was cautious and conservative. The Forensic Science Service (FSS) was set up in 1991, three years after a recommendation for agency status was first made. Like the LGC, the FSS operated in a statutory role in the administration of justice and is a self-funded, non-monopoly research establishment with most of its business coming from police services. The Prison Service is, like the Benefits Agency, huge representing the former division of the Home Office and was a separate department until the 1960s. On moving to agency status there was no alteration of the organizational structures. The Prison Service became an agency with reluctance by the Home Office and under considerable pressure from the centre. In an unusual move the framework document for the Prison Service made the ACE (or Director General as he continued to be known) the Home Secretary's principal policy adviser on prisons (HM Prison Service, 1993).

Appendix 1 shows the key characteristics of the case study agencies which represent a range of types, sizes and funding regimes. There were also clearly different levels of saliency and sensitivity about policy goals. Using criteria suggested by Hood and Dunsire (1981) and Dudley (1994) four of the case study agencies had goals involving a low level of political saliency as they were relatively small, specialized, not having a high degree of contact with the public and not involving highly sensitive policy areas. Three of the case study agencies, the Benefits Agency, the CSA and the Prison Service Agency were operating in policy areas of high political saliency. These three agencies had multiple, conflicting and rapidly changing goals which were highly politically salient. Separating policy from operational responsibility was difficult in each case either because wider government goals impacted on operational goals or because operational matters became politically sensitive. This is indicated for example by the number of parliamentary questions asked or level of ministerial correspondence (Judge, Hogwood and McVicar, 1997; Public Service Committee, HC 313, 1996 xlviii).

Resources and dependency

According to the Rhodes' model of power dependency, organizations exchange resources to achieve their goals (Rhodes, 1988). Public organizations need political legitimacy, authority, finance, organizational and informational resources. The goals or policies of agencies underpin the resource exchange expressed in the framework document. The next section of the paper will examine the impact of agencification on resources exchanged generally and in the case study agencies. It is clear that the introduction of agencies has led to a huge transfer of resources to agencies. Figure 1 (over) shows the resources held by ministers, departments and agencies.

The extent of financial and staffing delegation varies between agencies and has grown over time (see Gains 2000 for detail). Overall the introduction of agencies has transferred financial, organizational and informational resources to agencies and thus a great deal of power potential.

One departmental official explained

“you know what your money is before the beginning of the financial year, you know what your targets are, you can get on and meet those targets within that budget and you’ve got flexibility to do that. If you are bombed out mid-year then you may have a problem but you can’t be raided by the Department in the middle of the year if its going to affect your targets because ministers will have to go back to Parliament.... that’s public, its not a fudge within the Department and that gives the Agency Chief Executive tremendous strength”.

Figure 1: Resources held by Ministers, Departments and Agencies

Actor	Resource held
Ministers	Political <ul style="list-style-type: none"> • derived from elected office
Departments	Authority <ul style="list-style-type: none"> • over goals and spending decisions Authority <ul style="list-style-type: none"> • (devolved) and for financial probity Organizational <ul style="list-style-type: none"> • access to ministers • control over departmental rules • access to other parts of Whitehall especially

Agencies		Treasury
	Informational	<ul style="list-style-type: none"> • policy information • policy process information • financial information
	Authority	<ul style="list-style-type: none"> • (devolved) for operational matters • (devolved) for statutory functions • (devolved) for financial probity
	Finance	<ul style="list-style-type: none"> • control over financial resources
	Organizational	<ul style="list-style-type: none"> • buildings, staff and technology
Informational	<ul style="list-style-type: none"> • operational information • specialism, professionalism and expertise • 	

This strength is increased if the agency is providing a statutory or a monopoly service, the ACE of such an agency indicated “we have been quite successful in the last two years in getting additional money when we desperately needed it... and you know the Chief Executive of the agency is able to use avenues that you couldn’t use if you were just part of the main civil service”. And for those agencies which are self financing, for example the trading funds, it is the freedom to charge and accrue income not the budget allocation that grants the power potential. Of course the degree of transfer of resources and the resulting dependency varies according to the size and type of agency. As Peter Kemp¹ candidly explained “If Companies House goes down, it’s not the end of the world... But in the DSS if the Benefits Agency went down then you were in trouble, you had riots on the streets, you had people not getting their giros” (interview).

The loss of these resources to agencies primarily from departments was resisted and caused concern to departments who tried to find ways to capture and control these resources. A former departmental official explained why departments depended upon agencies for information, stating that although the Next Steps philosophy suggested “there should be a degree of monitoring of the lightest sort... departments never can resist meddling, partly because Ministers can’t keep their hands out of it when things go pear-shaped politically and partly because it does represent the detraction from the power of the central department and nobody likes losing power”. This meddling was fiercely resisted by agencies. A former ACE commented,

“from time to time we’d have little contretemps with HQ who’d want some information which we hadn’t got and my line of argument was, if I don’t need it to run the organization why do you need it from outside and if you convince me its valuable then I need it for running my organization and I’ll provide it and if you can’t convince me its valuable - you can whistle for it”.

¹ The first Next Steps Project Manager.

The delegation of operational resources to agencies under the framework document has also led to the delegation of a degree of ministerial authority to agencies. One former ACE said, “it gave the chief executive an obvious locus to sort of speak on behalf of the service as a whole”. Another found that the transfer of authority permitted more direct access to ministers, select committees and the NAO “I do have a range of mechanisms that I can use to actually surface issues” (interviews). Ministers also delegate their authority to departments. All of the DTI agencies saw the DTI as the realistic day to day point of authority as did the FSS in respect of the Home Office. One ACE explained “there is this gulf between the constitutional theory and the reality...I mean I’m appointed by a minister and I report formally to the minister, I’m accountable to the minister.... I see almost nothing of ministers”. Another commented that the permanent secretary had said of the framework document “OK so it may say you report to the Secretary of State but you actually report to me”.

However although departments exert delegated ministerial authority and agencies have delegated authority to act over operational matters detailed in the framework documents, *political resources* legitimizing the operation and the *authority to act* are still held ultimately by ministers (Gains 1999). Agencies operate firmly within the realms of ministerial responsibility and remain part of departments. It is ministers who receive a mandate from the electorate and remain accountable to parliament. Ministers’ authority is still absolute but may not be exercised uniformly.

In addition agencies and departments are highly dependent upon ministers to use their political resources to argue for financial resources within cabinet and with the Treasury. And because ministers are often transient it is often to departments that agencies look to for support for spending plans. A chief executive explained how his departmental ‘Fraser Figure’² helped in this respect “We needed a particular outcome on what we call our external funding limit, it’s the extent to which we can draw down our reserves in the Treasury’s piggy bank. It’s our money but we have to ask them for it and having somebody who knows their way around the system, who can get results in those kind of areas is very beneficial”. Agencies remained dependent upon departments for organizational and informational resources.

Agencification has altered traditional patterns of power dependency between ministers and departments creating new and dynamic patterns of resources and exchange and dependency particularly between departments and agencies. Figure 2 (over) shows the dependencies arising from the pattern of resource distribution post agencification. Ministers are dependent upon permanent bureaucracies for the resources to translate policy desires into action. Departments traditionally controlled organizational and informational resources through a uniform and unified civil service. The establishment of agencies has caused a visible and tangible transfer of resources from departments to agencies.

Figure 2: Dependencies Arising from Resource Exchange

Actor	Dependency on	Resource
Ministers	Departments	<ul style="list-style-type: none"> • organizational resources • information resources <ul style="list-style-type: none"> policy knowledge knowledge of Whitehall operational knowledge
	Agencies	<ul style="list-style-type: none"> • financial resources) to deliver • organizational resources) policy • informational resources) area

² The Fraser Report recommended agencies should have a single point of contact in departments who could represent the department to the agency and the agency to the department. Where adopted, this person became known as the agency’s ‘Fraser Figure’.

Both the command model and agency theory suggests there is a bi-lateral relationship between minister and agency. However the analysis of power dependency here, shows in practice the power dependency relationship is between ministers, departments and agencies. Where ministerial commitment and interest is high – in the politically salient agencies for example – there is a triangular dependency. This was the case with the Benefits Agency, the CSA and the Prison Service Agency. Where ministerial commitment is less the dependency relationship may be more linear. Ministers may delegate responsibility to departments who then largely ensure the function is delivered in agencies. This was the case for the three remaining four agencies in this study. Across the case study agencies the level of dependency also varied. Dependency was high in big or monopoly agencies, salient agencies or agencies with multiple goals. Again the Benefits Agency, CSA and Prison Service showed a high level of dependency between agency, department and minister. Whereas dependency is less in less complicated policy areas, or where agencies can raise finance, or where agencies are one of an number of providers. This was the case with the remaining agencies. The examination of the exchange of resources and the dependency created only indicates the power potential of agencies in government and in their relationships with departments. To look at how this power potential is exercised it is necessary to examine the processes of exchange or how the relationships were managed. The next section of the paper will set out both the formal and informal ways in which the new power dependent relationships were conducted.

Managing the new power dependent relationships

One of the key aspects of the 'Next Steps' changes was that the new institutional arrangements were not introduced through legislation³. However many of the arrangements for managing the new relationships were formal in the sense they were written down in the framework documents, often reflecting departmentally specific procedures. The roles and responsibilities expressed in the case study agencies' framework documents are set out in Appendix 2. Each department had different types of arrangements to manage agencies (see Gains 2001). The DTI used steering boards, the DSS had one overall management board and a number of other supporting arrangements for example staff mobility policies. The Home Office did not have a corporate response because of its compartmentalized nature. As agencification developed across government, the centre produced cross-governmental circulars and guidance relating to how departments related to agencies⁴ which was adopted differentially in departments.

These agency or department specific and cross-government arrangements are formal and covered arrangements for consultation and governance and the roles people were expected to play. The formal arrangements and what happened in practice, was largely related to the pattern of dependency outlined in the section above. The smaller executive type agencies never saw ministers – all contact was with departments. Those agencies which had a high dependency relationship with departments and ministers have high levels of contact built into their framework documents and a greater involvement with policy development.

³ With the exception of Trading Fund legislation in 1991.

⁴ These cross government procedures are gathered in the ACE Handbook

Of note was the different approaches seen in the Benefits Agency's relationship with the DSS and the Prison Service Agency's relationship with the Home Office. The Home Office, and its permanent secretary, had no real role in the formal arrangements set out in the Prison Service Framework Document. The arrangement did not reflect the degree of dependency existing between department and agency (see Gains 2001 for background). In contrast, the Benefits Agency which also needed to have close co-operation between operational and policy arms had very clear formal links. For Michael Bichard these formal arrangements were of great importance in facilitating the development of relationships "the Framework Document gives the right to be involved in policy. Agencies, especially big ones become more confident in providing feedback... we forged partnerships with policy colleagues" (speech, Sheffield University 16/3/1999).

It was however informal aspects of the relationships between departments and agencies which were felt to be most crucial in managing the new arrangements. As Bichard also pointed out, although the framework document deals with relationships "at the end of the day those do dependent upon a degree of trust and communication" (Treasury and Civil Service Committee HC 27, 1994, 153). Another ACE doubted whether his framework document clarified his relationship with ministers and department but explained "I am entirely clear in my own mind of how its going to work and I think that's all that matters really".

Existing informal networks, long an important feature of Whitehall, were key in the exchange of information, the development of trust and the transmission of awareness of the rules of the game and roles played. Many interviewees talked of pre-agency links and employment history when explaining how the new relationships were working, for example one ACE said "the fact I'd done administrative work and understood how the department worked and knew everybody was just enormously helpful". Another commented "you can't work without your contacts". Those coming into the civil service from outside commented on the difficulties of being an outsider "they know the ways to do things and the ways 'round here' of doing things, but for an outsider it's all rather intimidating".

There is evidence however that the development of informal links between the CSA, the PSA and their respective departments was problematic, both institutionally and individually by the ACE. For the CSA, as a completely new agency operating from scratch, with the majority of its staff and its ACE recruited from outside the DSS, informal links did not exist. Further, although Ros Hepplewhite (the first ACE) was appointed to run a shadow agency for a year before the formal launch, there is evidence that the development of informal links was not a priority. One former senior DSS official suggested, “she didn’t as an individual make any real attempts to sort of blend in and learn from the civil servants. So I don’t think there was the same organizational loyalty if I can put it that way that there might have otherwise been. I think she was sort of needlessly tactless on occasions with colleagues”.

Similarly, the Prison Service had a history of there being poor communication between operations and HQ (Lewis 1997, 22 - 24) because of the traditionally separate cultures of administrative grades, Governors and Prison Officers within the Service itself and little movement of staff between HQ and the field (interviews with Home Office and Social Security officials; Home Office 1995, 102 - 105). The first ACE Derek Lewis, did not develop informal links with the department (interview with senior agency and Home Office officials). Much of his energy went into working with the Prison Service Management Board, which had no links with the Home Office (Lewis 1997, 19, 75). A senior Home Office Official suggested “He had not a lot of patience for either the Home Office or the political side of the business and I think that’s probably in the end why he was dismissed”.

The difference between outsider and insider ACEs is also seen when looking at how they managed the role of being Chief Executive. One of the problems for early ‘outsider’ ACEs was confusion about the role and the ambiguity between agency rhetoric and the realities of working in a system still dominated by ministerial responsibility. A senior official from the home office explained

“I would always go with the informal rather than the formal as being truly significant. But I think the formal have their significance particularly for newcomers. You know if you are a newcomer to an organization you have to start by looking at the what the book says, if you’re not a newcomer, then you’re not interested in the book. People give it to you but you just stick it in a drawer and you don’t read it and you know all that stuff, but more important is a whole network of relationships”.

Lewis acknowledges the difference in his approach when writing about his decision to release IRA prisoners without consulting the Home Secretary (Lewis, 1997, 148). Ros Hepplewhite was said to “have gone to far in public and therefore incurred the wrath of ministers”(interview with former DSS official). Another civil servant in the DSS explained “If I was sitting in front of a parliamentary committee I would instinctively say, because I’ve been trained in it since I was an administrative trainee ‘that’s really a matter you need to talk to ministers about’ and I think [Ros Hepplewhite] just hadn’t got that sort of basic instinctive training”. At the Benefits Agency, the first ACE, Michael Bichard was from outside the civil service but he had worked in local government and so understood the complexity of operating in a political environment. The contradictions of working in a politically sensitive agencies left Lewis and Hepplewhite very exposed. Neither had the informal networks to mediate or provide assistance. Their experience then formed the basis for policy feedback (Pierson, 1993, 603) across Whitehall and further reinforced the dominance of ministerial authority over ACE autonomy (see Gains forthcoming b).

Overall the new power dependent relationships or networks operated according to formal and informal rules of the game and varied considerably. Networks were institutional, stemming from formal rules established to manage the changed resource exchange across government and within departments. The formal rules reflected path dependent policy adaptation and the nature of resources exchanged. They are also interpersonal (Marsh and Rhodes, 1992 a). Informal networks were used to smooth the policy process and led to shared understandings of the ‘rules of the game’. They encouraged the development of trust and communication in the networks. They informed actors’ perceptions of the roles they should play and of the skills and tactics available to them.

Networks and outcomes

It is argued here that the new relationships established following agencification are power dependent networks. They are networks because they are structured around resource dependencies. Using the Marsh and Rhodes diagnostic criteria, these type of bureaucratic networks would fall nearer the end of the policy community continuum. There is a resource exchange (except the case of the LGC, where privatization ensued, see Gains 1999) and the relationships are set up to be close and consultative. Appendix 3 summarizes the Department – Agency network properties. Two features are discernable. Firstly there were different levels of dependency in the networks with two broad groups identified. The DTI agencies and the FSS were low dependency networks indicating the small size, executive nature and low saliency of these agencies and their policy goals. The Benefits Agency, CSA and Prison Service Agency were high dependency networks reflecting their bigger size, the complexity and high saliency of their policy goals. There were also different degrees of integration in the networks with significant differences between the level of continuity and consensus. Here, the Child Support Agency and the Prison Service Agency faced significant problems.

It is also argued the networks were linked to both intended and unintended policy outcomes. Both the level of dependency and degree of integration of the networks were important when looking at how the networks impacted on policy outcomes. The use of the term policy networks is problematic. These are essentially bureaucratic relationships and agencies do not act like interest groups with an overt policy agenda. Agencies were deliberately set up to implement and not make policy. Nevertheless, in some ways, this research found that these ‘bureaucratic’ networks did impact on policy outcomes in four ways.

Influencing Operational Outcomes

In line with the policy aims of Next Steps, agencies were increasingly able to influence the development of operational goals. The increased power potential of agencies permitted operational considerations to be more seriously. One permanent secretary explained “it has made it much more difficult for the policy people to ignore the operational end because you have a much more powerful operational end who can turn round and say ‘no, you can’t make me do that, I am telling you that this is how it is going to be done’”. For example the Benefits Agency was involved in the development of the Job Seekers Allowance in a way which had not previously been possible. Likewise the current changes to the child support system reflect CSA’s concerns about the complexity of the original system. At the Prison Service the idea of combining tagging with early release was a Prison Service initiative. Nevertheless ministerial authority was still the dominant feature of these networks which was graphically illustrated when the 1997 Labour Government came to power. Their new policy agenda was not always in line with existing agency goals and targets. The Benefits Agency had to alter its targets to improve accuracy rather than timelines and the CSA’s plans to reduce its presence in local offices to meet efficiency targets were curtailed as they did not sit happily with the new Government’s commitment to improve service provision locally.

Implementation of Government Goals

Implementation difficulties were linked to the degree of network integration and not with the degree of political saliency (Gains, forthcoming a). Where there was institutional support, shared goals and values the network had a shared view of the policy problems it faced and how to solve them. The implementation process was smooth. This was the case with the Benefits Agency despite the high saliency of its policy goals. The network relationships around the Prison Service Agency and the CSA were poorly integrated. There was no consensus or continuity in the network and it was difficult for outsiders to learn the new and complicated hybrid roles demanded. It led to a failure to develop a shared perception of the policy problem and how to deal with it, these policy problems became exposed and then the way the network itself operated became part of the policy problem. Once 'insider' ACEs took over the network became more integrated and there was a better understanding of the dependency between department and agency and the constitutional context in which the network operated. Implementation difficulties remained, but implementation through the agency concept has become less problematic.

The development of policy preferences

Although the networks were not policy orientated, in some of the smaller, more executive agencies, operating at a greater distance from ministers, it was possible to see that agencies played a role in determining the overall policy agenda. For example, the FSS had a commitment to the development of DNA analysis as a forensic tool and presented evidence to the Royal Commission of Criminal Justice about the potential of genetic testing. Subsequently ministers realized the practical and political value of the technique and it became a flagship policy. It suggests that where there is little ministerial involvement and few if any outside interests, department-agency networks can operate, like policy communities in government - interest group networks, to shape the policy agenda and steer the policy direction. What was far more common, however, and perhaps the most striking way in which these bureaucratic networks impacted on policy outcomes, was in respect of administrative policies, directed towards the network itself.

Bureaucratic networks and administrative policies: the threat of privatization

It was in examining how the four less dependent networks responded to pressure to privatize the agencies that the operation of bureaucratic networks was most apparent. Not surprisingly, network activity was most directed towards policies which threatened the preservation of the network. This issue is discussed in detail elsewhere Gains (1999; 2000). It is clear that the four low dependency networks were all involved in highly politicized activity to fight off privatization initiatives and maintain the status quo.

Conclusion

This paper has explored the impact of agencification using insights from historical institutionalism and the concept of policy networks. It argues the exchange of resources creates power dependent networks operating under formal and informal rules of the game which influence policy outcomes in intended and unintended directions. Other forms of multi-level governance involve the transfer of resources away from central government and will change or create power dependent networks. Many arrangements involve a significant transfer of political legitimacy and authority, weakening central government's power potential to a far greater extent than found with agencification. In many cases this is an *intended* consequence of multi-level governance.

In concluding, three points are made about the *unintended impacts* on policy outcomes arising from multi-level governance that this research highlights. Firstly, the 'rules of the game' do not necessarily follow from the formal constitutional or institutional arrangements but develop in a path dependent manner from both formal and informal understandings. Secondly, 'joined up government' is more likely to occur where there is a balance of resources and agreement over policy goals. Poor network integration, will lead to implementation difficulties. Finally, given the tendency for networks to self-steer, if central government wants to 'steer' the policy process (which may not be a good thing) it must be active. It also needs to control the key resource of finance if political legitimacy and authority are shared or transferred.

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Appendix 1: Key Characteristics of Case Study Agencies

Dept.	Est.	Agency	Type ⁵	Customer	Competitors	Source of Finance	Budget: net cost of operations (£) ⁶	Financial Regime	Number of Staff ⁷
DTI	1988	Companies House	Regulatory	Public & commercial,	Only org. charged with holding information, some customer organizations also competitors in providing information	Fees and Charges	Income 34.9m Expenditure 34.5	Trading Fund	839
DTI, (until 1996)	1989	Laboratory of the Government Chemist	Research establishment	Other Government Departments	Yes, (including FSS), has contract to provide Valid Analytical Measurement initiative for DTI and Government Chemist still has statutory role in disputed cases	Charges	Income 14.4m Expenditure 15m	Net running costs before privatization	273 ⁸
DTI	1990	Insolvency Service	Regulatory	Public and Commercial	Some work is also done by other insolvency practitioners who are regulated by the Agency, IS steps in where problems and is only practitioner able to undertake some activities	Tax, although IS generates income from its insolvency work (i.e. fines and from insolvency process this money is not used to finance the agency)	Income 37m, Expenditure 78m	Gross running costs	1,345

⁵ Taken from Next Steps Agency Review 1995, Cm 3164, 1996.

⁶ Taken from Agency Annual Reports for 1997/98, published July 1998.

⁷ Taken from Next Steps Agency Review 1998, Cm 4273, published 1999.

⁸ Staff number at point of privatization, taken from NAO Report, The Privatization of the LGC, 1996.

Appendix 1: Key Characteristics of Case Study Agencies

Dept.	Est.	Agency	Type	Customer	Competitors	Source of Finance	Budget: net cost of operations (£)	Financial Regime	Number of Staff
Social Security	1991	Benefits Agency	Service to the public	Public	Operates as a monopoly, (some benefits paid out by other public sector agencies)	Taxation (&NI)	Net cost of operations 2.5 bn	Gross Running Costs	66,296
Social Security	1993	Child Support Agency	Service to the public	Public (caring and absent parents, taxpayers)	None (access to Courts phased out)	Taxation	Net cost of operations 225 m	Gross Running Costs	7,909
Home Office	1993	Prison Service Agency	Service to the public	Public	Operates as a monopoly (Agency is responsible for contracting private provision)	Taxation	Net operating costs 1.9bn	Gross Running Costs	39,363
Home Office	1991	Forensic Science Service	Research Establishment	Criminal justice agencies, police, some defence work and private sector customers overseas	Largest supplier in developing market	Charging	Income 59.7 m, expenditure 54.3m	Net running costs (due to move to Trading Fund)	1,238

Appendix 2 - Roles, Responsibilities and Governance Arrangements in Framework Documents

Agency	Role of Ministers	Role of Chief Executive	Role of Departmental Officials	Agency Involvement in Policy
Companies House (October 1988)	Determine policy framework - not involved in day to day management	Accountable to and reports to line manager and steering board, asked from time to time to report to ministers	Link with Dept via responsible line manager who will monitor and report to Ministers on performance of agency. Perm. Secretary is Accounting Officer	Expected to contribute to development of Departmental policy on subjects relevant to the activities of Companies House and on operational and management activities
LGC (October 1989)	Determine Policy - not normally involved in day to day activities	Accountable to Ministers, asked to report regularly to Ministers, designated Agency Accounting Officer, reports to Chief Engineer and Scientist	Link with Dept. via Chief Engineer and Scientist assisted by steering board, will advise ministers on performance. Perm. Secretary Accounting Officer	ACE to report on Agency's place within Departmental policy
Insolvency Service April 1990	Answer to Parliament on policy governing IS - not normally involved in day to day management	Accountable to and reports to DTI Ministers, and to Steering Board, designated Agency Accounting Officer	Permanent Secretary is Accounting Officer, link with DTI through Dep. Sec. who is assisted by Steering Board.	By introducing and developing a more pro-active approach to policy, to provide advice to Ministers on policy issues reflecting the changing economic needs of society.
Forensic Science Service (April 1991)	Secretary of State answers to Parliament for FSS. Not normally involved in day to day management. Advised by Home Office Deputy Secretary for Police on overall matters affecting policy for FSS & the performance of the Director General	Director General of FSS is Chief Executive with delegated personal responsibility for managing FSS effectively and efficiently and to meet targets, Director General is Agency Accounting Officer. Accountable to the Secretary of State.	Deputy Secretary for Police advises Ministers assisted by an Advisory Board which Director General will attend. Permanent Secretary is Accounting Officer	Advice will be provided from the Agency as part of the Department in the usual way

Appendix 2 - Roles, Responsibilities and Governance Arrangements in Framework Documents

Agency	Role of Ministers	Role of Chief Executive	Role of Dept. Officials	Agency Involvement in Policy
Prison Service (April 1993)	Home Secretary is accountable to Parliament for PS & allocates resources. Will not normally become involved in the day to day management of the PS, will expect to be consulted & receive reports from the Director General on handling of operational matters which could give rise to grave public or parliamentary concern.	Responsible for day to day management and is also the Home Secretary's principal policy adviser on matters relating to the Prison Service. The Director General is directly accountable to the Home Secretary for the Prison Service performance and operations. The DG is additional accounting officer.	Permanent Secretary is the principal adviser to the Home Secretary on matters affecting the Home Office as a whole and advising on the Prison Service's plans, targets and performance. Perm. Sec. is Principal Accounting Officer	DG is Home Secretary's principal policy adviser on matters relating to the prison service.
Benefits Agency (April 1991)	Secretary of State defines scope of Agency's activities, sets targets, resources, agrees its strategies, objectives and annual business plan	Chief Executive has full authority delegated from Secretary of State for managing Agency in its day to day operations, is Secretary of State's principal adviser on operational functions, provides reports for the Permanent Secretary, is Agency Accounting Officer	Permanent Secretary is principal adviser to the Secretary of State on matters affecting the management of the department as a whole, also responsible for advising Secretary of State about Agency and monitoring on his behalf	ACE has personal access to the Secretary of State following consultation with the Perm. Sec. on issues affecting his responsibilities, will participate in any discussions including policy proposals and is consulted by the Perm. Sec. before any proposals bearing on work of Agency put to Secretary of State. Contributes to Dept's policy development providing operational info can make policy proposals designed to improve effectiveness with which Agency meets its objectives, after consulting with Perm. Sec.
Child Support Agency (April 1993)	Secretary of State defines scope of Agency's activities, agrees strategies, objectives and business plan and sets targets and resources.	Delegated authority from Sec. of State for managing operations, principal adviser on these matters, responsible for meeting targets, standards & objectives within resources. Ag. Acc. Officer. Provides regular reports for the Perm. Sec. & info for Secretary of State.	Principal Adviser to the Secretary of State on DSS as a whole, responsible as Principal Accounting Officer, monitors and advises Secretary of State on performance of Chief Executive and Agency	Chief Executive provides information required by the Secretary of State or Permanent Secretary for policy development and evaluation and for other purposes.

Appendix 3: Summary of Department-Agency Network Properties

Agency	History of Agency	Goals: saliency & goal agreement	Nature of Dependency with Dept.	Formal Links?	Informal Links?	Degree of Role Understanding by Dept. & Agency	Shared Understanding of Agency Concept?
Companies House	Established part of DTI, keen to be agency, first ACE internal	Low saliency, policy area straightforward, goal agreement	Not high, low saliency but statutory basis	Strong	Strong	Good	Yes
LGC	History of moving within Gov., keen to be agency, first ACE internal	Low saliency, goal agreement straightforward, with more Depts. than DTI	Very low but small statutory basis, non monopoly, little work for department	Strong	Closer at Agency's outset	Good at start and again at privatization	Yes - at start & again at point of privatization
Insolvency Service	Established part of DTI, agency ambiguous about agency status at outset, first ACE internal	Complicated - legal, & contact with public, medium saliency, mostly goal agreement	Not high, low saliency but statutory basis	Strong	Historically based	Better now than at Agency's outset	Yes - greater now than at Agency's outset
Forensic Science Service	Established part of Dept., keen to be agency, first ACE internal.	Multiple goals but low saliency, high goal agreement	Not high, low saliency but statutory basis, non- monopoly	In place but inactive	Very strong	Good	Yes

Appendix 3: Summary of Department-Agency Network Properties

Agency	History of Agency	Goals: saliency & goal agreement	Nature of Dependency with Dept.	Formal Links?	Informal Links?	Degree of Role Understanding by Dept. & Agency	Shared Understanding of Agency Concept?
Prison Service	History of separate Department, ambiguity about becoming agency, first ACE external	Multiple, conflicting and rapidly changing goals, highly salient, little goal agreement	Very high - size and saliency	Weak at outset, strengthened over time	Weak at outset, strengthened over time	Very uncertain, improved over time	No initially, improved over time
Child Support Agency	New organization, new staff, assumption of creation as agency, first ACE external	Multiple, conflicting and rapidly changing, highly salient, goal agreement difficult	High - not recognized at outset	Strong	Poor at all levels at outset, strengthened over time	Very uncertain, improved over time	No initially, improved over time
Benefits Agency	History of being operational unit, agency concept welcomed, first ACE external	Multiple, conflicting and rapidly changing goals, highly salient, goal agreement problematic	Very high - size and saliency	Very strong	Strong - multi level	Good	Yes - Agency able to use resources autonomy initially