

The Next Steps Initiative

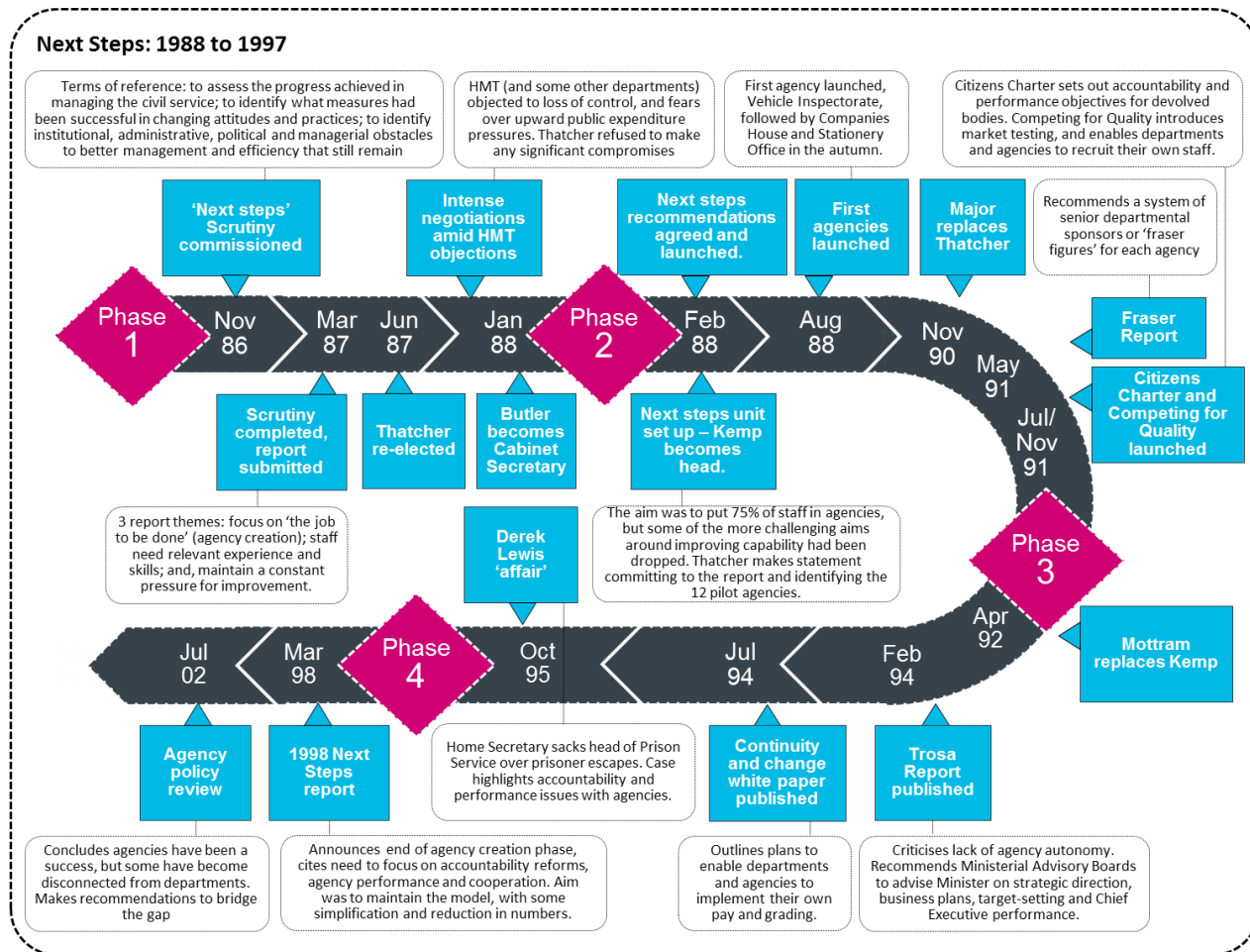
Nehal Panchamia and Peter Thomas



The Next Steps Initiative

The Next Steps initiative is seen as one of the two or three key reform moments in the development of the Civil Service. It was a direct consequence of the 'lasting reforms' agenda of Sir Derek (later Lord) Rayner (Margaret Thatcher's efficiency adviser) in the early 1980s. For good or ill it has fundamentally changed the shape and mind-set of the Civil Service – not just within the agencies it created, but across the remainder of Whitehall. Subsequent reforms – Bringing In and Bringing On Talent, Public Service Agreements and the Prime Minister's Delivery Unit, and Capability Reviews – drew explicitly and heavily on the lessons from this approach to change in the Civil Service, and they could not have happened without it.

Figure 1: Timeline of Next Steps, 1986 to 2002



Source: Institute for Government analysis

Origins: Refreshing the Efficiency Scrutinies (1986-87)

During the late 1970s and the 1980s, the Thatcher Government was committed to making major cuts in public expenditure and finding ways of saving money in departments. In 1979, Thatcher appointed Rayner, then joint managing director of Marks & Spencer, as her personal adviser on improving efficiency and effectiveness in government. He immediately established the Efficiency Unit and, soon after, the 'scrutinies' began. These aimed to identify and cut those functions, systems and processes that were seen to be wasteful or unnecessary, in the hope that this would help generate efficiency savings.¹ This paved the way for Rayner's lasting reforms agenda. Meanwhile, in 1982, the Financial Management Initiative (FMI) was introduced, which was a large-scale review of departmental systems of managerial responsibility, financial accounting and control. This began to instil a new

¹ Haddon, C., *Reforming the Civil Service: The Efficiency Unit in the early 1980s and the 1987 Next Steps report*, Institute for Government, May 2012, retrieved 15 January 2014.

concern for management and laid the groundwork for later reforms. By the mid-1980s, however, there was a sense that the scrutinies and FMI had not delivered the required changes.²

Sir Robin Ibbs, who succeeded Rayner as head of the Efficiency Unit and adviser to the Prime Minister, commissioned the Next Steps report 'to assess the progress achieved in managing the Civil Service; to identify what measures had been successful in changing attitudes and practices; to identify institutional, administrative, political and managerial obstacles to better management and efficiency that still remain; and to report to the Prime Minister on what further measures should be taken'.³

The scrutiny process began in November 1986 and was led by Kate Jenkins, a member of the Efficiency Unit and later its chief of staff. The team was given 90 days to complete the scrutiny. This involved conducting more than 150 interviews, including 21 ministers (covering most of the Cabinet), 26 permanent secretaries, 26 Grade 2s/deputy secretaries, a number of personnel and finance directors, nationalised industry chairmen, and staff in local and regional offices. The team collated views on how effective previous initiatives had been in improving management, what measures had helped the most, what obstacles remained and what future improvements were needed.⁴

Following the scrutiny process, the team led a collaborative, iterative design process. A group of five or six 'most senior' permanent secretaries, led by Sir Robert Armstrong, then Head of the Civil Service, were closely involved in testing and developing their emerging ideas.⁵ They included Sir Kenneth Stowe (Department of Health and Social Security to 1987, then Cabinet Office), Sir Brian Cubbon (Home Office) and Sir Clive Whitmore (Ministry of Defence).⁶ At this stage, many senior officials didn't seem to understand the full implications of the process and where it was going. Partly because of its seemingly non-threatening nature, they allowed the team access to information they might not otherwise have disclosed.⁷

Phase 1: Taking forward the conclusions of the scrutiny process (1987-88)

In March 1987, the scrutiny was completed and a draft of the Next Steps report was submitted and discussed with Thatcher. The report outlined three strands of activity:

- the 'need to focus on the job to be done'
- staff should have relevant experience and skills
- maintaining constant pressure for improvement.⁸

The implications of the report were far-reaching. First, it recommended hiving off the delivery functions of Whitehall into autonomous arm's-length agencies, which would involve transferring around 75-95% of the existing Civil Service out. Second, it recommended changing the skills and management of what remained of the Whitehall machine. Third, it recommended retaining a unit in the centre of government to maintain an institutional pressure for reform. Together, these implied fundamentally changing the 'bone structure' of Whitehall and transforming the way officials conceived of their core functions and responsibilities.⁹

While progress was made on all three strands (e.g. the Top Management Programme was established to train Whitehall officials in management),¹⁰ only the first strand – agencification – was pursued with any vigour.¹¹ This

² Ibid., p. 15.

³ Jenkins, K., Caines, K., and Jackson, A., *Improving Management in Government: The Next Steps: Report to the Prime Minister*, February 1988.

⁴ Haddon, op. cit., p. 17.

⁵ Jenkins, K., in Kandiah, M., and Lowe, R. (eds), *The Civil Service Reforms of the 1980s*, CCBH Oral History Programme, 2007, p. 110.

⁶ Wilson, R., in Kandiah and Lowe, op. cit., p. 112.

⁷ Jenkins, K., in Kandiah and Lowe, op. cit., p. 107.

⁸ Jenkins, K., Caines, K., and Jackson, A., *Improving Management in Government: The Next Steps: Report to the Prime Minister*, February 1988, p. 8.

⁹ Civil Service Reform (hereafter, CSR), interview 22.

¹⁰ CSR, interview 27.

chimed with the concerns of middle managers and articulated their frustration with constraining central rules, but generated ambivalence, resistance and even outright hostility from other quarters.¹²

Thatcher was reportedly wary, primarily because of the enormity of the proposed change and the prospect of Treasury hostility. She did, nonetheless, broadly support the direction of travel.¹³ She felt increasingly frustrated with permanent secretaries 'who had made such a mess of "the dinner" in May 1980',¹⁴ and thought that the policy would 'benefit the rank and file'.¹⁵ In the end, prime ministerial approval meant that Ibbs and Jenkins had significant leverage and influence to drive through the conclusions of the scrutiny process.¹⁶

The Treasury, as expected, was highly resistant, fearing a loss of control over public finances and upward pressure on agency expenditure. The first protest came during the report-writing phase in February 1987, and matters became really serious in the summer of 1987 when it suspended co-operation with the process, causing something of a hiatus. Nigel Lawson, then Chancellor, and Sir Peter Middleton, then Permanent Secretary to the Treasury, campaigned hard to block the publication.¹⁷

Opposition was not confined to the Treasury, but came from all fronts: the No. 10 Policy Unit, Thatcher's principal private secretary and press secretary, some ministers (including John Major), unions and permanent secretaries.¹⁸ While some senior officials welcomed the opportunity to free themselves from management and delivery concerns, others feared the consequences of losing control over whole sections of their department.¹⁹ Unions were similarly divided – some feared it was a first step towards extensive privatisation, while others saw it as an opportunity to out-negotiate management on staff pay and conditions, as the Treasury feared.²⁰

Treasury support was essential to taking the agenda forward. However, Thatcher, under the advice of Ibbs and Armstrong, refused advice from the head of the No. 10 Policy Unit, her chief of staff and her principal private secretary to make any significant compromises that would alter the substance of the report. This resulted in a long battle with the Treasury, which delayed publication of the report by a year. Lawson was eventually won round when he became convinced that Next Steps fitted with the political commitment of using market models for public service delivery and was a first step towards more extensive privatisation. Middleton remained unconverted for a long time and had to be 'talked and drafted round'.²¹ In the end, only minor wording and emphasis changes were made to the final report. This set out clearer lines of accountability and slowed down the pace of reform by committing to it only on a 'pilot' basis.²² The unions were 'far easier to deal with than the Treasury' and were generally persuaded after extensive formal consultation.²³

At the ministerial meeting in July 1987, Thatcher asked all ministers to put forward candidates for the pilot stage. Although this was ostensibly voluntary, departments were expected to produce at least two candidates, which 'gave scope to enthusiasts and embarrassed others ... into action'.²⁴ Departments then analysed their functions and identified areas where agencies could be created. Initially, departments put forward fairly modest candidates

¹¹ Jenkins, K., and Gold, J., *Unfinished Business: Where next for Executive Agencies?*, Institute for Government, July 2011, pp. 26-8.

¹² CSR, interview 23.

¹³ Jenkins, K., in Kandiah and Lowe, op. cit., p. 118.

¹⁴ Soon after Margaret Thatcher came to power, she held a dinner for permanent secretaries at No. 10 at which it was hoped that a better understanding might be achieved between her and civil servants. The evening proved to be a disaster and merely persuaded the Prime Minister that very few of the permanent secretaries were 'one of us'. She ended the dinner unexpectedly early.

¹⁵ Kemp, P., in Kandiah and Lowe, op. cit., p. 116.

¹⁶ Wilson, R., in Kandiah and Lowe, op. cit., p. 121.

¹⁷ Kandiah and Lowe, op. cit., pp. 126-30.

¹⁸ CSR, interview 23.

¹⁹ Wilson, R., in Kandiah and Lowe, op. cit., p. 126.

²⁰ CSR, interview 23.

²¹ Kemp, P., in Kandiah and Lowe, op. cit., p. 112.

²² Jenkins, K., in Kandiah and Lowe, op. cit., p. 119.

²³ CSR, interview 20.

²⁴ Jenkins, K., *Politicians and Public Services: Implementing change in a clash of cultures*, Edward Elgar Publishing, 2010, p. 118.

that already had a degree of autonomy (See Figure 2). There was a conscious effort to turn straightforward candidates into agencies first and leave the more politically contentious ones for later, when experience had been built up.²⁵

During this time, wider developments could have distracted attention and stalled progress, including a general election (1987) and a change in the leadership of the Civil Service (from Armstrong to Sir Robin Butler in 1988). This period was seen as a critical moment that, if not managed well, could easily have led to the agenda tailing off. The Efficiency Unit, however, made strenuous efforts to communicate the importance of Next Steps to the Labour Opposition to prevent it being abandoned, if Labour came to power.²⁶ Active outreach efforts were also undertaken with the Treasury and Civil Service Select Committee (TCSC), which published its first, very supportive report on Next Steps in July 1988.²⁷

Figure 2: Candidates for agencies announced by the Prime Minister on 18 February 1988

	Department	Staff	Date of creation
Vehicle Inspectorate	Transport	1,600	1 August 1988
Companies House	Trade and Industry	1,100	3 October 1988
Her Majesty's Stationery Office	-	3,000	14 December 1988
Defence Non-Nuclear Research Establishments	Defence	15,000	1 April 1991
Driver and Vehicle Licensing Directorate	Transport	5,400	2 April 1990
Employment Service	Employment	41,000	2 April 1990
Historical Royal Palaces	Environment	300	1 October 1989
Meteorological Office	Defence	2,500	2 April 1990
Passport Department	Home Office	1,000	2 April 1991
QEII Conference Centre	Environment	60	6 July 1989
Resettlement Units	Social Security	600	24 May 1989
Royal Parks	Environment	600	1 April 1993

Source: National Audit Office, *The Next Steps Initiative*, 6 June 1989

Phase 2: Getting agencification up and running (1988-92)

This phase implemented the agencification strand of the Next Steps report:

'The aim should be within five years to establish a quite different way of conducting the business of government. The central Civil Service should consist of a relatively small core of about 20,000 people engaged in the functions of servicing ministers and managing departments who will be the 'sponsors' of particular government policies and services. Responding to these departments will be a range of agencies employing their own staff who may or may not have the status of crown servants.'²⁸

On the day of publication, Thatcher made a statement to the House of Commons endorsing the report's recommendations and suggesting that agencies should be created 'to the greatest extent possible', which left the ambition theoretically open-ended.²⁹ Between 75% and 95% of civil servants would be hived off to autonomous agencies to focus on delivery.³⁰ Central government would lose some of the detailed controls it held so that senior officials would have more time to concentrate on policy, while agencies would have more freedom to adopt

²⁵ CSR, interview 23.

²⁶ Haddon, op. cit., p. 20.

²⁷ CSR, interview 22.

²⁸ Jenkins, K., Caines, K., and Jackson, A., *Improving Management in Government: The Next Steps: Report to the Prime Minister*, February 1988.

²⁹ Drewry, G., 'The Civil Service: from the 1940s to "Next Steps" and Beyond', *Parliamentary Affairs*, vol. 47, no. 4, pp. 583-95.

³⁰ Peter Kemp stated that he aimed to hive off 75% of civil servants into agencies to the Treasury and Civil Service Select Committee in 1988, while 95% is the logical result of reducing down to a core of 20,000 (as was stated in the original version of the Next Steps report).

business-like management practices. It was hoped that this would lead to more accountable management with quantifiable targets, customer-focused services and better value from public expenditure.³¹ The underlying intention was to separate delivery from policy in order to build better links between them.³²

By 1988, the Treasury was wary rather than opposed and at times even 'friendly and informally helpful'.³³ More generally, the aims fit with a particular 'sentimental' conservative attitude that saw the mandarins as highly effective at policy analysis, but as needing 'to be preserved from doing things that they were very, very bad at, such as the delivery of services'.³⁴ The environment was, on the whole, more supportive than it had been, but not yet fully in tune with what was to come.

Given the challenging aims of the reform, Thatcher appreciated that it was vital to have it project-managed by a permanent secretary, directly answerable to her. Peter Kemp, a Treasury senior official, was appointed the project manager and became a permanent secretary in the Cabinet Office. He was identified for the role because of his accountancy background and forceful way of working.³⁵ He was seen as a highly committed, energetic and driven individual, who got Next Steps up and running by 'shaking the temple'.³⁶

While Kemp's position, experience and style gave him some leverage, more senior backing was essential. In this respect, Butler was hugely important in managing internal civil service tensions and gaining access to the Prime Minister when needed. Thatcher didn't offer high-profile support or a significant amount of her time, but made it clear that she supported the agenda and would not tolerate continued opposition. This combination of support gave Kemp sufficient authority to carry out the changes as well as an implicit threat to wield against his peers, which meant that no other departments (especially the Treasury) could 'push in'.³⁷

The operating model was consciously informed by an analysis of previous reforms. The scrutiny process had concluded that an initial flurry of ministerial activity was likely to fade, and implementation unlikely to be carried through, without a dedicated central unit.³⁸ Accordingly, a Next Steps Unit (NSU) was established, which 'kept the faith' and had access to the Prime Minister and her staff, when needed.³⁹ Kemp assembled a highly motivated, skilled and relatively small team of around 10 people, including a Grade 3 director, Grade 5 day-to-day manager and junior account managers.⁴⁰ This emulated the Rayner model, which emphasised that a small, focused organisation would add value, while a large one would only 'add bureaucracy'.⁴¹ The NSU was seen as a tight ship comprising 'misfits', 'slightly awkward people' and – unusually – a few outsiders, many of whom had a strong understanding of service delivery. Following the lead of Kemp, they were seen as disruptive mavericks armed with an unwavering commitment to changing things.⁴²

The team worked towards a numerical coverage target of putting 75% of civil servants into agencies (which Kemp 'plucked from the air' and continued to increase)⁴³ and developed a clear set of processes around when a new agency would be established and what it would look like (later developed into a 13-point checklist of essential criteria for an agency).⁴⁴ This involved conducting a review of pre-agency functions to assess what was supposed to be delivered; what management structures would make it work better; and, whether performance would improve

³¹ Ibbotson in Kandiah and Lowe, *op. cit.*, 2007, p. 108.

³² CSR, interview 23.

³³ CSR, interview 17.

³⁴ Waldergrave, W., in Kandiah and Lowe, *op. cit.*, p. 117.

³⁵ Jenkins, K., *Politicians and Public Services: Implementing change in a clash of cultures*, Edward Elgar Publishing, 2010.

³⁶ CSR, interview 23.

³⁷ Jenkins, K., in Kandiah and Lowe, *op. cit.*, p. 128.

³⁸ *Ibid.*, p. 110.

³⁹ CSR, interview 23.

⁴⁰ *Ibid.*, CSR interview 20.

⁴¹ Haddon, *op. cit.*, pp. 6-7.

⁴² CSR, interview 23.

⁴³ CSR, interview 20.

⁴⁴ *Ibid.*

if the function was privatised, abolished or established as an agency. Then, arising from this review, the team would specify the relationship between the parent department and the agency in a carefully crafted, bespoke framework agreement, which set out the objectives, performance targets and resources assigned to each agency.⁴⁵ This was drawn up in consultation with the Treasury, and single negotiations would take place on any proposed changes to staff pay and conditions.⁴⁶ Finally, each agency was formally launched with a public statement from the relevant minister.

A few years into the reform, the Treasury devolved more financial flexibility to agencies – an important element of this was the trading fund model.⁴⁷ This gave agencies greater control over how they spent the money that they received from customers. The expectation was that profits would be reinvested into service improvements that customers would recognise, thereby improving the way agencies related to customers.⁴⁸

Responsibility for the day-to-day operations of each agency was delegated to a chief executive. For these positions, Kemp was particularly keen on recruiting outsiders such as accountants with experience in financial management.⁴⁹ They would be held to account for performance by a minister, who in turn would be held to account by Parliament for the agency's performance.⁵⁰

During this development phase, the team invested an immense amount of time in briefing all those who were involved, coordinating networks, creating champions for reform and devising a 'lively and innovative' communications programme, including booklets, public reports and a video, which built up the impression that the reform was going to succeed.⁵¹ Kemp ran regular meetings with agency chief executives to discuss common challenges and provided updates to permanent secretaries at the weekly Wednesday morning meeting.⁵² He always had clear backing from Butler, which ensured that the initiative wasn't seen as an insurgency, but as a priority worth co-operating with.⁵³

The unit's primary measure of success was progress against coverage targets, which was published in an annual report.⁵⁴ External accountability for progress was largely provided by the Treasury Commons Select Committee (TCSC), which published annual reports in the first few years of reform. The TCSC could easily have derailed the programme, but Kemp, and later project managers, understood the need to keep it on side.⁵⁵ A significant amount of time was spent discussing recommendations openly and honestly, such as the need to strengthen accountability to Parliament (soon fulfilled through the creation of agency accounting officers).⁵⁶ The TCSC became an important 'friendly critic', playing a key role in publishing the changes more widely.⁵⁷ Given that very few ministers were interested, and the Opposition didn't really express a view, the only parliamentary voice was 'intelligent and supportive'.⁵⁸

By the early 1990s, the political context became highly turbulent: the poll tax riots broke out, Major succeeded Thatcher as Prime Minister, the Gulf War began and a general election was imminent. Alongside this, other reform

⁴⁵ National Audit Office, *The Next Steps Initiative*, June 1989, p. 3.

⁴⁶ CSR, interview 17; CSR, interview 20.

⁴⁷ Butler, R., 'The Evolution of the Civil Service – a progress report', *Public Administration*, vol. 71, autumn 1993, pp. 395-406, p. 401.

⁴⁸ CSR, interview 23.

⁴⁹ Ibid.

⁵⁰ National Audit Office, *The Next Steps Initiative*, June 1989, pp. 12-13.

⁵¹ Goldsworthy, D., *Setting up Next Steps: A short account of the origins, launch and implementation of the Next Steps project in the British Civil Service*, London, May 1991, pp. 34-5.

⁵² Jenkins, K., *Politicians and Public Services: Implementing change in a clash of cultures*, Edward Elgar Publishing, 2010.

⁵³ CSR, interview 20.

⁵⁴ Ibid.

⁵⁵ Ibid.

⁵⁶ Radice, G., in Kandiah and Lowe, op. cit., p. 122.

⁵⁷ Ibid.

⁵⁸ Waldergrave, W., in Kandiah and Lowe, op. cit., p. 123.

agendas were announced – including the Citizen’s Charter and Competing for Quality in 1991.⁵⁹ Kemp was particularly concerned that these newer initiatives presented a direct threat to Next Steps.⁶⁰

There was a conscious effort to manage the effect of these developments on the programme. Kemp and Butler met the shadow Cabinet in the run-up to the general election and convinced them that Next Steps was a transferable technology that could deliver a better model for whoever formed the government.⁶¹ In May 1991, John Smith, then shadow Chancellor, gave a speech committing the Labour Party to the reforms.⁶² Butler also ensured that the change of prime minister did not undermine progress, by linking Major’s interests in increasing transparency and accountability through the Citizen’s Charter into the narrative around Next Steps.⁶³

By May 1991, 50 agencies had been established, comprising 50% of the Civil Service; 60-70% of chief executives had been appointed following an open competition, and about 35% came from outside the Civil Service.⁶⁴ The Next Steps model began to embed greater awareness of financial and budgetary matters, as well as an acceptance of external recruitment – normalising what was once seen as highly radical.⁶⁵

However, there remained concerns around accountability (and whether this lay with ministers or agency chief executives) as well as performance.⁶⁶ This provided the impetus for the Fraser review, which criticised the fact that there was no one in departments responsible for looking after agencies, and recommended a senior department sponsor (‘Fraser figures’) for each agency to act as an external adviser on agency performance.⁶⁷

In 1992, Kemp left the Civil Service after clashing with William Waldegrave, then Minister for Public Services, and Richard Mottram replaced him as project manager. This change in leadership provided an opportunity to reflect, review and refresh the reform process.

Phase 3: Moving into ‘business as usual’ mode (1992-95)

Mottram, previously a policy director at the Ministry of Defence, had little interest in or knowledge about Next Steps prior to his appointment as project manager in 1992.⁶⁸ Like Kemp, he became a permanent secretary on appointment to the role, had strong Cabinet Secretary backing and access to the Prime Minister. However, his leadership and style of working was different. While Kemp was seen to be highly confrontational and spiky, Mottram was far more conciliatory and smooth.⁶⁹ He aimed to re-engage senior officials by making the reform fit with them rather than ‘rubbing up’ against them in the way Kemp did.⁷⁰

By this stage, Treasury resistance was ‘no longer an issue’.⁷¹ The Major administration’s attention, however, increasingly began to turn towards the Citizen’s Charter and the Competing for Quality White Paper (1991). These could be tied in with the general direction of the Next Steps reforms, but represented a challenge in terms of priorities since Major had never shown much interest in the agenda.⁷² To make matters worse, a Conservative counter-attack began following the 1992 election. Backbenchers and radical voices in the party began to raise

⁵⁹ Major, J., ‘Speech to the Conservative Central Council’, 23 March 1991, retrieved 16 January 2014; <http://www.johnmajor.co.uk/page2017.html> HM Government, *Competing for Quality: Buying better public services*, London, November 1991.

⁶⁰ CSR, interview 23.

⁶¹ CSR, interview 22.

⁶² Radice, G., in Kandiah and Lowe, op. cit., p. 132.

⁶³ Haddon, op. cit., p. 20.

⁶⁴ Butler, op. cit., pp. 395-406, p. 400.

⁶⁵ CSR, interview 23.

⁶⁶ CSR, interview 20.

⁶⁷ Fraser, A., *Making the Most of Next Steps: the management of ministers’ departments and their executive agencies*. A report to the Prime Minister, London, 1991.

⁶⁸ CSR, interview 20.

⁶⁹ CSR, interview 23.

⁷⁰ Ibid.

⁷¹ CSR, interview 20.

⁷² Ibid.

concerns that public servants were ‘escaping’ into agencies, which acted as a barrier to privatisation, contracting out or the closing down of unnecessary functions.⁷³

It was crucial that Citizen’s Charter and Competing for Quality were tied in with Next Steps to ensure continued prime ministerial interest. Mottram therefore spent a great deal of time communicating these links across the Civil Service, to departments and agency staff.⁷⁴ Eventually, all the reforms were integrated into the same narrative, giving the impression that the Prime Minister was ‘fantastically interested’ in the reform, which incentivised any reluctant permanent secretaries to stay on board.⁷⁵

By the mid-1990s, Next Steps had become a highly consensual agenda, which made it easy to forget just how contentious it had been a few years before.⁷⁶ The Next Steps team grew, developed a standard agencification process, was well-experienced in applying it and required less day-to-day guidance. As a result, agencies were created at a faster rate and in higher-profile areas, such as customs and revenue, defence, child support and prisons; by 1994, 99 agencies had been created comprising 65% of the Civil Service.⁷⁷ Although the coverage never reached the somewhat arbitrary aim of 75%, this still represented a fast rate of fulfilment.

The process inevitably changed, losing some of the excitement and the sense of a pioneering experiment of the early days, while gaining a sense of ‘establishment’ – agencies simply became the way things were done now.⁷⁸ The sheer number of agencies meant that departments and ministers had less time to be actively engaged in the design, approval and monitoring of agencies, and the Fraser figures, which were supposed to correct this, were never really put to effective use.⁷⁹ As some officials argue, this led to numbers rather than quality being prioritised.⁸⁰

By the mid-1990s, it became clear that the framework agreements for individual agencies were not necessarily incentivising improvement in performance. In July 1995, Michael Heseltine became Deputy Prime Minister and took over responsibilities for public service reform. He pushed for the development of a major public sector benchmarking project that would enable cross-agency comparisons of performance. However, these efforts were met with resistance from the Treasury and individual agencies and thus never really took off.⁸¹

More generally, this loss of focus on agency performance led to some high-profile challenges and failures. For example, the Prisons Agency was severely criticised after a series of high-profile IRA prisoner escapes, which led Michael Howard, then Home Secretary, to sack the agency chief executive, Derek Lewis.⁸² The case highlighted the confusion in the roles and accountabilities of ministers and chief executives, as well as problems arising from a lack of support for agencies, poorly designed policies and underestimation of the resources required to set up an agency.⁸³

⁷³ Waldergrave, W., in Kandiah and Lowe, op. cit., p. 129.

⁷⁴ CSR, interview 20; CSR, interview 22.

⁷⁵ CSR, interview 20.

⁷⁶ CSR, interview 22.

⁷⁷ Richards, S., ‘Devolving Public Management, Centralising Public Policy’, *Oxford Review of Economic Policy*, vol. 10, no. 3, 1994, p. 44.

⁷⁸ CSR, interview 23.

⁷⁹ CSR, interview 22; CSR interview 23.

⁸⁰ CSR, interview 17; CSR, interview 20.

⁸¹ CSR, interview 17; CSR, interview 23.

⁸² Riddell, M., ‘Did prison work in Michael Howard’s day? Only if riots and jailbreaks equal success’, *The Telegraph*, 30 June 2010, retrieved 17 January 2014. <http://blogs.telegraph.co.uk/news/maryriddell/100045511/did-prison-work-in-michael-howards-day-only-if-riots-and-jailbreaks-equal-success/>

⁸³ James, O., Moseley, A., Petrovsky, N., and Boyne, G., ‘Agencification in the UK’, in Verhoest, K., van Thiel, S., Bouckaert, G., and Laegreid, P. (eds), *Government Agencies in Europe and Beyond: Practices and Lessons from 30 Countries*, Palgrave Macmillan, 2011.

The end of the main agency creation phase and the closure of the Next Steps unit (1995-97)

Prior to the 1997 election, Labour had publicly committed to the Next Steps programme, despite irritation with the perceived erosion of ministerial accountability. Once in power, David Clark, then Minister for the Cabinet Office, reiterated that 'delegation is here to stay' and that Labour would not reverse the reforms.⁸⁴

Soon after, the 1997 Next Steps report stated that more than 75% of the Civil Service was now contained within agencies. As a result, it announced the end of the main creation phase and closure of the central unit.⁸⁵ At this point, the ambition plateaued and focused simply on maintaining the agency model, while introducing some simplification and reduction in the number of agencies. Departments were now solely responsible for their agencies, with little external oversight from a central unit.

Reflections on the reform lifecycle

The Next Steps initiative emerged from a successful attempt to refresh and reinvent an existing civil service reform intervention (Rayner's 'lasting reforms' and the 'scrutinies'). It began ambitiously, hiving off between 75 and 95% of the Civil Service to arm's-length agencies, and immediately had a huge impact.

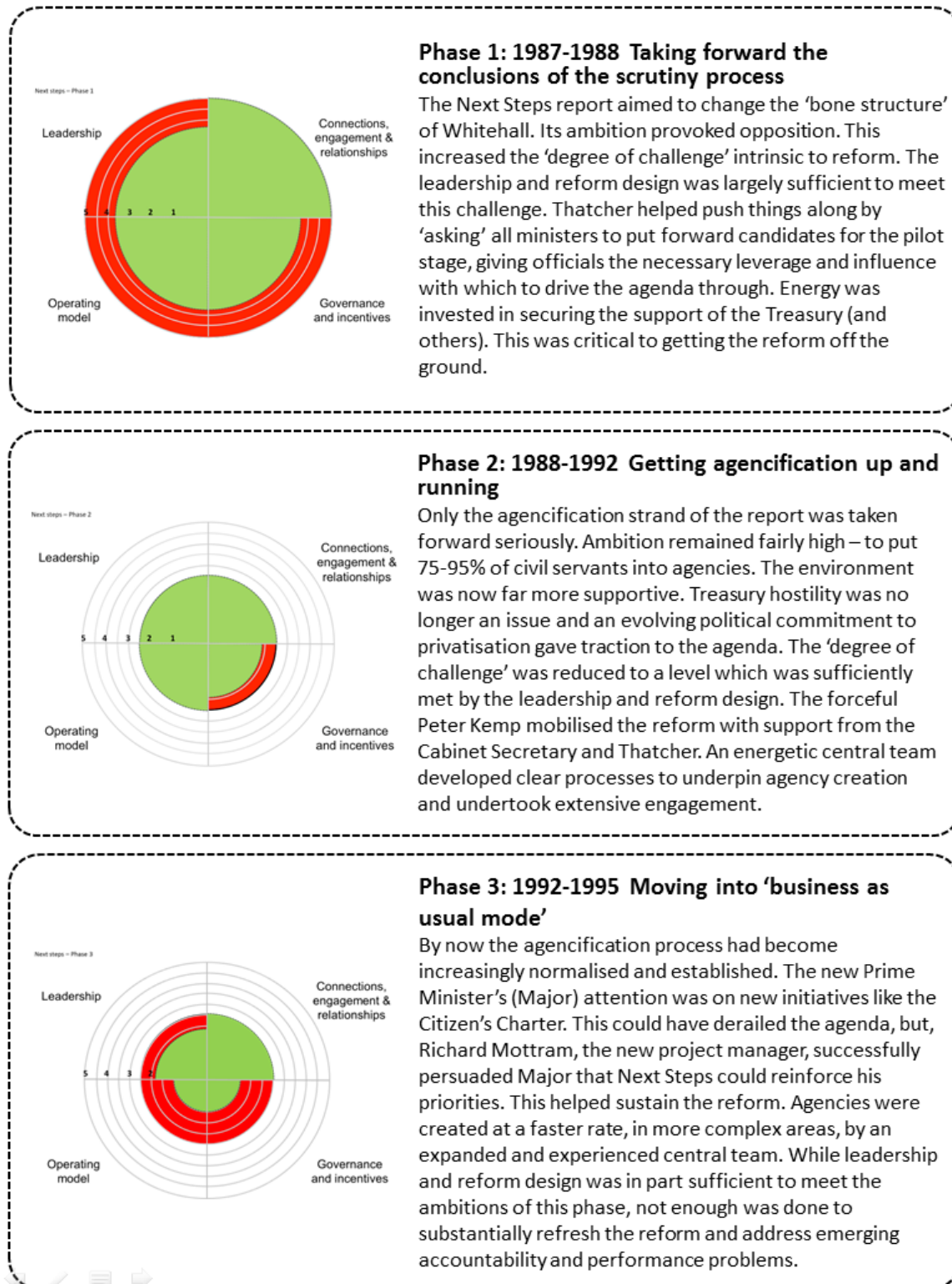
But the discipline and sense of purpose gradually decreased over time as agency creation became mechanistic and normalised. As political, and therefore official, attention moved on to other initiatives, such as Citizen's Charter and Competing for Quality, there were no substantial attempts to refresh the model or ensure it was effectively embedded.

Instead, in 1997, the programme was officially closed. Since then the chaotic, tactical cycle of proliferation then reduction in the number of agencies and other arm's-length bodies is testament to the lack of challenge and discipline. Without an energised leader and an influential central team to measure progress against the original intentions, further progress and benefits were squandered.

⁸⁴ Theakston, K., 'Continuity, Change and Crisis: the Civil Service since 1945', *Public Policy and Administration*, vol. 10, no. 3, pp. 45-59.

⁸⁵ HM Government, *Next Steps Report*, London, 1998.

Figure 3: The three phases of Next Steps



Source: Institute for Government analysis

Legacy

The Next Steps report had far-reaching consequences, but not entirely in line with what the authors intended to achieve. It introduced some 'hard' changes in the operating model of the Civil Service. Between 1988 and 2010, 217 arm's-length agencies were created, while 131 were terminated through merger, closure of functions, change of organisational form or privatisation.⁸⁶

There is evidence that suggests greater freedom from the centre contributed to a greater focus on customers and led to tangible improvements in frontline public services:

- Companies House reduced the amount of time taken to process documents from 25 days to 4 (by 2002). Its unit costs fell by 18% over the three years to 2001.
- By 2002, HM Land Registry had reduced its fees by 40% and achieved a 40% improvement in efficiency since becoming an agency in 1990.
- The UK Passport Agency reduced the amount of time taken to process a passport from 95 days to 10 days (by 2002).⁸⁷

The initiative changed the way policy makers in the remainder of the Civil Service thought about policy.

'[Before Next Steps] policy makers made policy but didn't influence or help those trying to run the operations... [it was] unrealistic policy – being made without any sense of reality. Then after Next Steps...people talked about the importance of understanding the reality...[there was] much more movement of fast streamers to spend time in local offices trying to understand reality ...concepts like customer focus came in and people at more senior levels recognised they had to think about these issues.'⁸⁸

It also fundamentally changed the agenda on staffing and appointments. First, it gave a push to openness and the idea that people other than civil servants could effectively run certain delivery functions. This led to greater acceptance of open advertisement and the value of bringing people in from the private sector.

'Ceding the organisations to a different sort of person ... those people were very much more public and they had a more direct relationship with Parliament ...'⁸⁹

This precipitated changes to orders-in-council in 1996, which meant that civil service commissioners no longer had to make all external Senior Civil Service (SCS) appointments, allowing for far easier external recruitment of chief executives.⁹⁰ These themes were directly built on by the Bringing In and Bringing On Talent reform agenda from 1999.

Next Steps instilled a clearer idea of what officials were supposed to be delivering. The framework agreements were seen as exemplars of setting objectives and resources as well as facilitating measurement of performance. This encouraged people to look closely at a department and ask what it was there for, laying the foundations for the Public Service Agreements (PSA) agenda, which identified objectives for each department from 1998.⁹¹

⁸⁶ James, Moseley, Petrovsky and Boyne, op. cit., p. 13.

⁸⁷ HM Treasury and the Prime Minister's Office of Public Services Reform, Better Government Services: Executive Agencies in the 21st Century, Agency Policy Review – report and recommendations, 2002, p. 17.

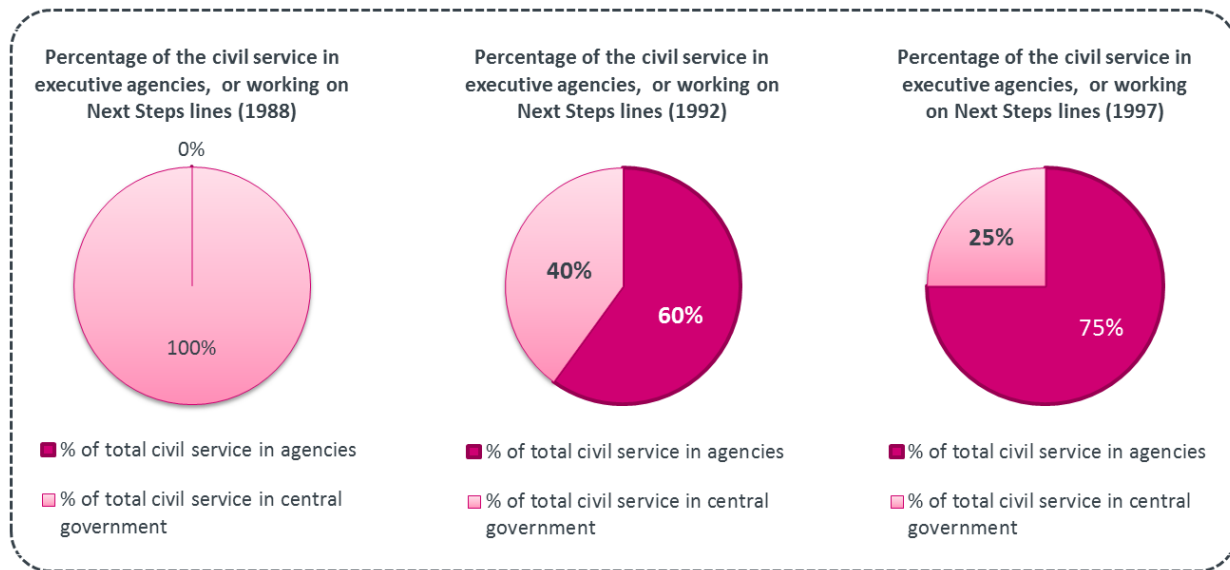
⁸⁸ CSR, interview 27.

⁸⁹ CSR, interview 20.

⁹⁰ CSR, interview 27.

⁹¹ CSR, interview 20.

Figure 4: Percentage of the Civil Service (staff) in executive agencies, 1988-97



Source: Government Statistical Service, Civil Service statistics 1997, figure 4, p. 6

For better or worse, the initiative also strengthened the federal nature of the Civil Service through a huge shift to delegation and decentralisation. Senior managers who remained outside agencies saw the freedoms that agencies now had and wanted similar freedoms from central controls:

'There's a legacy around the importance of delegation ... [and] the importance of executive management.'⁹²

'[In the] late 1980s, departments were saying get off our back – we said fine – yet it was difficult to persuade them to do it and take the responsibility ... At that point pay grades and points for non-Senior Civil Servants were centrally controlled ... we agreed to let them do their own thing below the newly created Senior Civil Service.'⁹³

These changes have not been without problems and challenges. First, lack of clarity around the roles and accountability of ministers and chief executives mired the effectiveness of the later, more controversial agencies such as prisons and child support.⁹⁴ Second, some senior officials found it difficult to embrace the new culture of devolved management and continued to involve themselves in managerial issues.⁹⁵ Third, despite the intention of 'joining up' policy and delivery more effectively, the creation of agencies in fact widened the divide between the London-based policy core and regionally based delivery staff.⁹⁶ The 2002 Agency Policy Review noted that some agencies had become disconnected from their departments and needed clearer accountability frameworks and roles for non-executive board members.⁹⁷

⁹² Ibid.

⁹³ CSR, interview 27.

⁹⁴ CSR, interview 23.

⁹⁵ Richards, op. cit., p. 45.

⁹⁶ Butler, op. cit., p. 400.

⁹⁷ HM Treasury and the Prime Minister's Office of Public Services Reform, op. cit., p. 3.

