The Next Steps Initiative

Ordered by the House of Commons to be printed
6 June 1989

Her Majesty's Stationery Office, London
£5.50 net
This report has been prepared under Section 6 of the National Audit Act, 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

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31 May 1989

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1. In February 1988, the Prime Minister announced that the Government had accepted the four main recommendations of a report by the Efficiency Unit entitled "Improving Management in Government: The Next Steps" (Appendix 1). To the greatest extent practicable, the executive functions of Government would be carried out by units designated as agencies headed by a Chief Executive. And the Government committed itself to a continuing programme for establishing Agencies, applying progressively the lessons of the experience gained.

2. This Report records the results of an examination by the National Audit Office of the initial arrangements for implementing the Next Steps initiative. Examinations were undertaken in the Office of the Minister for the Civil Service (OMCS), the Treasury, and five other departments.

3. The main aim of the Next Steps initiative is "to deliver services more efficiently and effectively, within available resources, for the benefit of taxpayers, customers and staff". This is to be achieved by operating departmental services and functions as Executive Agencies established within a framework of policy and resources set by the responsible Minister in consultation with the OMCS and the Treasury. The intention is that, while strategic control of the Agency will remain with the Minister, responsibility for the day-to-day operations of each Agency should be delegated to a Chief Executive. The Chief Executive's responsibilities and authority will be set out in a framework document which will normally be published. Most Agencies will remain in the Civil Service.

4. An integral part of the Next Steps initiative is more accountable management, and the Government look for controls over Agencies to be few but effective. The Government's priorities are:

   - setting demanding targets for improved performance, and developing better performance measurement systems and techniques;
   - delegating more responsibility for operational matters to local managers;
   - applying and adapting where necessary the best public and private sector management techniques;
   - directing career management and training towards improving the management of services;
   - introducing where appropriate more flexible pay and personnel arrangements;
   - devising and introducing appropriate financial regimes for Agencies; and
   - monitoring Agencies' performance to ensure they progressively improve.
5. A Project Manager for the initiative was appointed in February 1988 with responsibility for planning and managing the process of change and for ensuring that obstacles to progress are identified and tackled. He has a Project Team within the OMCS to assist him in meeting these aims. His general tasks include developing in conjunction with departments a progressive programme for establishing Agencies; tackling across-the-board issues such as pay and financial regimes in conjunction with the Treasury where appropriate; ensuring the design and introduction of effective training and personnel management policies aimed at improved management and delivery of services; and spreading understanding of Next Steps principles and good practice in implementing them throughout the Service.

6. Ministers are consulted and their approval sought where necessary. And the Project Manager works in close conjunction with the Treasury where appropriate in line with their responsibilities for financial management, value for money, public expenditure control and pay and personnel policy (Appendix 2).

7. The Efficiency Unit estimated that some 95 per cent of civil servants were employed on delivering Government services. When he was examined on Next Steps by the Treasury and Civil Service Committee in May 1988, the Project Manager, when pressed, expressed the personal view that at least three quarters of the Civil Service might be covered by Agencies within ten years. When asked again by the Committee in May 1989, he said he saw no reason to modify that statement.

At May 1989, some 572,000 staff were employed in the Civil Service.

Implementation of the initiative

8. The National Audit Office examined departments’ performance in getting the Next Steps initiative under way during the first year after its inception, focusing on the monitoring of overall progress; the steps taken to identify candidates suitable to become Agencies; and those measures aimed at preparing activities for Agency status.

Overall progress

9. The Project Manager for Next Steps makes six monthly reports on the initiative to the Prime Minister; and, as part of its normal work programme, the OMCS Project Team keeps details of departments’ progress. The information assembled includes (i) Agency candidates announced; (ii) those identified but not announced; (iii) other areas of work being examined as to suitability for Agencies; (iv) possible further ‘ideas’ for Agencies; and (v) activities unlikely ever to become Agencies. For the first three categories, departments provide details of the function and staff numbers of each potential Agency; and the target dates for the submission of the draft framework document to Ministers, for final approval of the framework document, and for the launch of the Agency.

10. At 12 May 1989, five Agencies had been established:— the Vehicle Inspectorate (1,600 staff); Companies House (1,100 staff); Her Majesty’s Stationery Office (3,000 staff); the National Weights and Measures
Laboratory (50 staff); and the Warren Spring Laboratory (300 staff). A further 32 services and functions employing some 185,000 staff had been identified as firm candidates for Agency status, excluding three Northern Ireland candidates (Appendix 3). In February 1989, the Minister of State, Privy Council Office said he expected four further Agencies to be established by the end of July 1989. The Project Team expect there to be some 20 established Agencies (employing some 80,000 staff) by April 1990.

11. In addition to the five established Agencies and the 32 firm Agency candidates at May 1989, covering some 185,000 staff, departments had told the Project Manager that they were considering as possible Agency candidates a further 43 specific services and functions, covering some 54,000 staff. These figures excluded the bulk of the staff of Ministry of Defence, the Inland Revenue, and Customs and Excise — with whom the Project Manager was in discussion.

Identifying activities for Agency status

12. Departments are responsible for identifying, and their Ministers for deciding, which activities within their departments may be suitable for Agency status, though the Treasury’s Expenditure divisions may suggest candidate activities to the departments. To aid departments, the OMCS and the Treasury issued guidance, approved by Ministers, setting out the main factors for departments to consider in the identification process. For example, whether activities were capable of becoming discrete administrative units, sufficient in size to justify any major structural changes that might be necessary, concerned with the delivery of services, and independently accountable within the department. Areas of work where the day-to-day involvement of the department or its Minister is inevitable, or where policy and its execution are inextricably linked, are unlikely to be suitable candidates for Agency treatment, at least initially.

13. Before an Agency can be set up, departments have to consider the alternatives of abolition, privatisation (the preferred Government option if suitable), and contracting-out. In recognition of the diverse natures and activities of departments, the guidance did not provide a specific definition of an ‘Agency’ and took account of their likely variety.

14. The National Audit Office examined the arrangements of five departments for the identification of Agency candidates; — the Ministry of Agriculture, Fisheries and Food, and the Departments of Health, Trade and Industry, Transport, and Social Security (Appendix 5). As might be expected — in view of their different sizes, structures, responsibilities and priorities — the departments’ arrangements for and progress in identifying potential Agency candidates varied.

15. On the administrative arrangements, four departments had appointed a single branch to co-ordinate identification work by other branches; one department had appointed a branch to undertake all the identification work itself; and two departments had prepared timetabled action plans for the review process.
16. At the time of the National Audit Office study, the five departments had identified internally for Agency status 33 activities employing 109,000 staff. 14 activities were considered definite for Agency status, 4 as probable, and 15 as possible. The 33 activities accounted for 11 per cent (Department of Health) to 95 per cent (Department of Social Security) of the departments' staff complements.

17. Because of the difficulty of separating out policy and operational elements, five candidate activities employing 4,100 staff were considered unsuitable for Agency status at the time of their examination by the five departments. Some other services and functions were considered unsuitable on account of their small size, and others were awaiting the outcome of other reviews, such as the Health Service review. All five departments intended to review 'rejected' candidates at a later date in the light of any changed circumstances for the activities concerned and having regard to general developments on the Next Steps initiative.

**Preparing activities for Agency status**

18. The guidance to departments on identifying activities for Agency status referred to in paragraph 12 included guidance on preparing them for Agency status. It called upon departments to undertake a rigorous review analysis of the readiness of each identified activity for Agency status, the functions to be exercised by it as an Agency, and the benefits sought from the Agency approach (Appendix 4). An important requirement is that the review analysis must enable the Minister of the parent department, and ultimately the OMCS and the Treasury, to be satisfied that the proposed Agency will have a robust management structure with appropriate financial, accounting and management information systems. This is so it can operate at the outset without danger to the public purse and to the provision of services to customers.

19. The OMCS issued separate guidance to departments on the framework document for Agencies. Broadly, the document must set out the relationship of the Agency with its parent department (if applicable)* and its responsible Minister; the aims, objectives and performance targets set for the Agency; and its resources and financial and accounting arrangements, including its delegated powers. The framework documents reinforce the emphasis on accountable management; and, as noted in paragraph 3, they will normally be published.

20. Although only the responsible Minister may authorise the establishment of an Agency, departments are required to discuss their proposals for Agencies with the OMCS and the Treasury, and to obtain their agreement to the framework document. In particular:

- the OMCS, as part of the Project Manager's responsibility for ensuring that necessary change takes place, assist with the process of setting up Agencies within an agreed timescale. They are responsible for ensuring that Agencies are set up in conformity with the spirit of Next Steps, on a sound and durable basis; and that this is carried out

* Some Agencies (for example, HMSO) will be departments in their own right, with their own Votes or Trading Funds, and will not therefore have 'parent' departments.
in adherence to issued guidance, including consideration of alternatives to Agency status. They pay particular attention to ensuring that relationships between the Agency and the responsible Minister are properly defined so as to ensure clarity in functions, responsibilities and accountability.

— the Treasury are involved in the identification and preparation for launch of departments’ individual Agencies. They look at the appropriateness of the overall policy and resources framework, and in particular the performance measures and the arrangements for setting challenging performance targets so as to secure greater efficiency and effectiveness, and for monitoring performance. They also examine proposed delegations on financial, staff and pay matters, and proposed accounting arrangements, in line with their overall responsibilities.

21. For working purposes, departments set indicative target dates for establishing Agencies but do not announce them publicly. The OMCS and the Treasury seek to ensure that the target dates are realistic, consistent with setting-up an Agency on a sound and prepared basis. Project Liaison Groups established by the OMCS enable departments to exchange information, review progress and discuss with the central departments issues of common concern, including those that arise in establishing Agencies.

22. The National Audit Office examined the Agency preparation arrangements of the Departments of Trade and Industry, Transport, and Social Security (Appendix 5). The examination, which covered two established Agencies and three prospective Agencies, found that the departments had adhered to issued guidance, including full discussions with the OMCS and the Treasury. It appeared that the departments had not overlooked any measures necessary to prepare the activities for Agency status. In most cases, the identified necessary measures were implemented for the established Agencies before their establishment; and appropriate steps were being taken to implement relevant measures for the three prospective Agencies.

23. While Agencies need to be set up on a sound basis, they continue to develop once established, and it would not be practicable for all arrangements to be in place when the Agency is launched. Indeed, modification and development in the light of experience is an essential part of the Next Steps concept. As regards the first three Agencies, arrangements not finalised before their establishment included:

— for HMSO, a new flexible pay system, and targets for the 1989 financial year;
— for Companies House, a bonus scheme for staff, and a training needs analysis;
— for the Vehicle Inspectorate, a revised senior management structure, further quality of service indicators, and a staff incentive pay scheme.
However, all the matters listed above were being considered by the departments at the time of the National Audit Office examination, and new HMSO targets have since been set.

The first three Agencies' policy and resources frameworks

24. A critically important factor for each new Agency is the definition of the policy and resources framework within which it operates and against which its management will be held accountable, and the essential elements will be set out in the Agency's framework document. The National Audit Office examined the framework documents of the first three established Agencies for consistency with the thrust of the Next Steps initiative and with the Government priorities for it, examining in particular the arrangements for corporate planning, setting objectives, the provisions of finance, staffing, training, pay, departmental monitoring, accounts, audit and accountability to Parliament (Appendices 6 to 8).

25. The National Audit Office also discussed with the OMCS and the Treasury the way forward for the initiative. The discussions covered the underlying principles of Next Steps including the need for departments to set up Agencies on a sound basis, to fully explore the opportunities for further delegations to Agencies within existing arrangements, and beyond that the justification for changes in central controls in particular cases to further improve efficiency.

Agency planning arrangements

26. The OMCS and the Treasury intend that each Agency should be required to prepare each year on a rolling basis a medium term corporate plan and an annual operating plan with detailed performance targets for the year immediately ahead. For Agencies which are not separate departments, these plans will form the basis of the input to their departments' annual Public Expenditure Survey proposals and require the approval of the departmental Minister following consultation with the Treasury.

27. The first three established Agencies have the following planning arrangements:

- Vehicle Inspectorate: A five-year Corporate Plan, including strategies and objectives, performance targets and staff and volume profiles. It is to be accompanied by a one-year Business Plan, including an overview of the Agency's work budgets and work volumes for 1989-90 and its targets to 1990-91.

- Companies House: A five-year Corporate Plan, including demand analysis and forecasts, marketing and fees and charges strategies, manpower and other resources assessments, and unit cost and productivity targets. Also with a detailed Business Plan for 1989-90 and 1990-91.

- HMSO: New Corporate and Business Plans are to be drawn up during 1989 within the framework of a medium term financial objective progressively and substantially to increase HMSO's profits.
Objectives and targets

28. In general, while there were no significant changes in the stated functions and aims of the first three Agencies to those prior to their establishment as Agencies, their objectives and targets were changed to reflect the wider flexibilities and delegations granted to each of them under Agency status. The setting of genuine indicators of Agency performance (among other things to enable effective monitoring of the Agency) is a mandatory requirement for establishing an Agency. And, as the objective is to improve efficiency, performance targets should be challenging. Normally, targets should be set and published no later than the launch of the Agency.

29. As regards the objectives and targets for the first three Agencies:

- **Vehicle Inspectorate:** The Department of Transport set a financial target for the Agency to improve overall cost efficiency by 3.7 per cent over the two year period to March 1991 for its three main activities: its programmes for Heavy Goods Vehicles, Public Service Vehicles and MoT testing which account for some 80 per cent of the Agency's gross expenditure. This target requires larger savings than the cost efficiency target of 1.5 per cent per annum set for the running costs of departments generally. Within the Agency's overall cost efficiency target of 3.7 per cent, the Department of Transport have also set unit cost targets for 1989-90 for subsidiary parts of the Agency's three main activities, subject to adjustment in the light of final outturns for 1988-89.

- **Companies House:** The Department of Trade and Industry set a target of a 12 per cent productivity improvement for the two years to March 1991, which compared with a previous annual improvement target of 6 per cent, but which recognised significant improvements already made, including a productivity gain of 10 per cent in 1987-88. Other targets set by the department require the Agency, by April 1991, to make all public documents available to searchers within an average of 18 working days; and to achieve a 7 per cent decrease in unit costs in real terms. Also, to achieve a reduction of 10 per cent in non-complying companies by June 1991.

- **HMSO:** At the time of its establishment as an Agency in December 1988, HMSO's existing targets were to break even in historic cost terms and to achieve a five per cent return on average net assets in current cost terms. A Treasury Minute of 14 December 1988 established a medium term objective for the Agency progressively and substantially to increase annual profit after interest in current cost terms over five years; and, in March 1989, the responsible Treasury Minister replaced the former targets by a more challenging target equivalent to an eight per cent return on average net assets in current cost terms for 1989. This equates to a profit of £1.7 million, which compares with HMSO's achieved pre-Agency profit of £0.8 million for 1987-88. Other targets set for HMSO look for value for money improvements on procurement services from 8 to 11.5 per cent using 1984-85 as the base year; and quality of service...
indicators such as the delivery of jobs to time, job deliveries without fault, and response times for customer orders. Each of these detailed targets requires an improvement over achievements in 1987-88.

Financial arrangements

30. The financial regimes of Agencies are to be considered case by case and the Treasury expect that the needs of many Agencies can be accommodated within the existing supply and control arrangements as these may develop over time. Most Agencies will be funded from Votes of their parent departments, and receipts of the Agencies will normally be appropriated in Aid of the relevant Vote or surrendered to the Consolidated Fund. In all cases, the needs of Agencies for net public expenditure (or for gross running costs where appropriate) will be subject to Public Expenditure Survey control procedures.

31. The existing supply and running cost arrangements for departments already provide a number of flexibilities – for example, end-year carry over of capital underspends up to specified limits, and exemption from gross running cost control where suitable. The Treasury have made it clear that, subject to the need to maintain essential public expenditure controls, they stand willing to consider on their merits cases for greater flexibilities for Agencies where these can be justified on efficiency/effectiveness grounds.

32. As in the case of HMSO, some Agencies may be Trading Funds under the Government Trading Funds Act, 1973, where eligible and able to operate more efficiently under its more commercial regime. However, some bodies, including those which are directed by statute to provide a service and those where their fees are fixed by regulation, are at present outside the scope of the Act.

33. In February 1989, the Chief Secretary to the Treasury informed the House of Commons that the Government intended to bring forward legislation at the earliest opportunity so that trading or 'Agency' funds would be available in such cases. The change is expected to add significantly to the range of financial regimes available to Agencies; and such a regime was agreed in principle for the Vehicle Inspectorate in its framework document.

34. Prior to the Government's announcement of its intention to proceed with the Next Steps initiative, in accordance with the existing financial flexibilities referred to in paragraph 31 above, the Vehicle Inspectorate and Companies House were given exemption from gross running costs control from April 1988. Subsequently, at the time they were established as Agencies, their parent departments agreed a number of additional financial flexibilities to enhance their ability to operate more efficiently, including the right to transfer resources between capital and current spending, and vice versa. The Companies House was also given authority to carry over to the following financial year up to 25 per cent of current year funds provided for capital expenditure, compared with the normal five per cent flexibility for departments. Additional financial flexibilities granted to Agencies by their parent departments have to be accommodated within the relevant flexibilities of the departments.
Staffing arrangements

35. It is the Government's intention that Agencies will generally remain within the Civil Service, and their staff continue to be civil servants. The delegation of responsibility to Agencies for staff matters such as complements, recruitment, and promotion is to be determined by parent departments and the Treasury having regard to such factors as the size of the Agency and its in-house experience and expertise in such matters. In April 1989, the Minister for the Civil Service announced that the Government proposed that from April 1991 departments and Agencies should be free to carry out their own recruitment of staff for all posts except Grade 1 to 7 — Permanent Secretary to Principal and its equivalents — and fast stream staff.

36. The Vehicle Inspectorate and the Companies House have various additional delegated powers for staff matters up to various grade levels and to specified staffing levels, but subject to annual review of complements within the Corporate Plan process. HMSO (as a separate department with a Trading Fund) mostly has full responsibility for staff matters, subject to the approval of Treasury Ministers of its Corporate and Business Plans.

Training arrangements

37. In July 1988, the OMCS and departments agreed an Action Plan on training in response to the Next Steps initiative. The Plan included the issue of OMCS guidance on quality content of training and development; the improvement of training statistics for the purpose of quality control and performance measurement; the preparation by departments and Agencies of training action plans to improve their own training and development of staff; and the development of new and relevant courses by the Civil Service College to support Next Steps. The Action Plan is now mostly discharged; and since the completion of this National Audit Office examination the OMCS have collected and issued departmental summaries of the training action taken. Additional funding of £1 million a year is being provided for management development training as part of the Senior Management Development Programme for Grade 4 to 7 staff. The Civil Service College has developed ten special training courses on Next Steps issues.

38. Each of the three Agencies established so far has undertaken training needs analyses and/or training reviews. All three Agencies, and departments as appropriate, plan to examine the training arrangements annually within the Corporate Plan process and, where necessary, with advice from the OMCS.

Pay arrangements

39. The Treasury expect that Agencies' pay arrangements will normally be developed within existing flexibilities within the Civil Service — for example, long term pay agreements, performance pay, and local pay additions. Proposals by departments for additional pay flexibilities for
Agencies will need to be administratively practical and broadly comparable with Civil Service arrangements, and the Treasury will want to be satisfied that any changes are clearly related to prospective improvements in efficiency and effectiveness.

40. Additional pay flexibilities were given to the three established Agencies. Both the Vehicle Inspectorate Agency and the Companies House Agency are negotiating with the Treasury bonus schemes for their staff related to the achievement of Agency targets. HMSO is to introduce entirely new pay and grading arrangements for its non-industrial staff tailored more precisely to its particular circumstances and with pay increases linked directly to the achievement of specified objectives set for individual staff.

41. The Chief Executives of the three established Agencies are civil servants. One was appointed through open competition, and two were already in charge of operations. Each of the three Chief Executives will receive performance pay. For HMSO, the Chief Executive will be paid on the Civil Service Grade 2 scale which has associated performance pay linked to assessed performance in the job. The Vehicle Inspectorate Chief Executive will receive a performance bonus if the Agency’s target composite unit cost efficiency index of 103.7 is achieved by March 1991, and a higher bonus if an index of 104.7 or better is achieved. The Companies House Chief Executive is paid on the Civil Service Grade 4 scale and may receive three annual cash bonuses, and also a terminal bonus after three years, dependent on the achievement of the Agency’s main targets. The Treasury expect that many Chief Executives of future Agencies will also have their remuneration similarly linked directly to performance.

Departments’ operational and review arrangements for Agencies

42. Framework documents must specify the controls and safeguards which parent departments will operate over Agencies. The main controls are:

- the need for Agencies to obtain Ministerial approval of their Corporate and Business Plans and performance targets;

- the departmental and central monitoring and control arrangements for the financial, staffing and pay matters considered appropriate by the parent department and, where relevant, the Treasury;

- the requirements for Agencies to produce annual accounts and to make annual reports to departments’ Ministers — from which performance can be compared with approved plans and targets. The annual reports will normally be published.

43. The controls for the three established Agencies are as follows:

- Vehicle Inspectorate: The Chief Executive reports to the Department of Transport Deputy Secretary responsible for road safety, who is supported by a departmental group. The group, which includes an appointee with commercial experience from outside the Civil Service, provides advice to Transport Ministers on the Agency’s Corporate and Business Plans, and monitors its performance.
— **Companies House**: The Chief Executive is accountable initially to the head of the Department of Trade and Industry’s Companies division who is supported by a Steering Board which includes the Chief Executive and three private sector members approved by departmental Ministers. The line manager advises the departments’ Ministers on the Agency’s Corporate Plan and the efficiency and effectiveness of the Agency’s operations.

— **HMSO**: As a department in its own right, and a Trading Fund, HMSO already had a Board of Directors which may now include up to three non-executive directors appointed by Treasury Ministers on the recommendation of its Chief Executive. At the time of the National Audit Office examination, no non-executive directors had been appointed to the Board.

44. In addition to making annual reports to their parent departments, the Vehicle Inspectorate and Companies House Agencies are required to make quarterly progress reports to them. The quarterly reports include details of income and expenditure against forecasts, business values, staff in post, and specified performance indicators; and they are also required to provide the parent departments with warnings of significant deviation from annual targets and from budgets. HMSO is to produce such reports on its activities as Treasury Ministers may require; and detailed progress reports, including performance against targets, for its Board of Directors.

45. In line with the Government’s overall aim for the Next Steps (paragraph 3), each Agency established is charged with delivering its services more efficiently and effectively. No overall targets have been set or estimates made for improvements in services and for financial savings from the creation of Agencies for the Civil Service as a whole. However, the OMCS, in collaboration with the Treasury, are currently developing a policy evaluation framework for the initiative. Although the details are not yet fully determined, inter alia the evaluation is likely to examine arrangements for planning, resource allocation and finance; personnel management and pay; and customer service.

**Agency accounts and their audit**

46. In February 1988, the Prime Minister assured the House of Commons that, in so far as Agencies remained in the Civil Service, the normal rules of accountability and audit would continue to apply. She also stated that Agencies would generally remain within the Civil Service. The National Audit Office will therefore generally continue to audit the financial accounts of Agencies; and they will continue to have rights under the National Audit Act, 1983 to carry out examinations into the economy, efficiency and effectiveness with which Agencies have used their resources in discharging their functions.

47. The financial transactions of Agencies will generally be accounted for either as a Trading Fund, under the Government Trading Funds Act, 1973 as it may be amended (paragraph 33), or through a single departmental Vote confined to the Agency, or within a wider departmental Vote. All Trading Fund Accounts and all Vote accounts are audited and certified by the Comptroller and Auditor General (the Head of the National Audit
Office) who will have access to Agency accounting records as well as to
departmental accounting records as at present.

48. Trading Fund Agencies will produce full commercial accounts and
annual reports. And, to supplement the information available from the
annual Vote accounts and from departmental chapters of the annual Public
Expenditure White Paper, Agencies other than Trading Fund Agencies will
also produce separate reports and accounts covering, in particular, their
performance against targets. The Treasury are currently preparing guidance
for departments on the form the accounts might take. These are likely to
be commercial style audited accounts but some may be unaudited
financial statements in the early years until enough confidence has been
gained to produce full formal accounts.

49. Departments are required to consult the National Audit Office on
substantive passages in framework documents relating to the formal
accounts of Agencies, and also on the detailed layout of accounts and on
the systems for producing them. Departments may also consult the
National Audit Office on the form of accounts during their formulation
stage; and also on other matters such as the management information
systems necessary to underpin Agency financial and performance targets.
Currently the National Audit Office are advising the Vehicle Inspectorate
Agency on its planned commercial accounts (see paragraph 51).

50. As regards the accounts of the first three Agencies, HMSO will
continue to produce a Trading Fund Account, which will continue to be
examined and certified by the Comptroller and Auditor General, and
which will continue to be published and laid before Parliament. The
Vehicle Inspectorate and the Companies House will continue for the time
being to produce internal Memorandum Trading Accounts; and the
Vehicle Inspectorate will continue to provide summary management
accounting information in its published annual reports, which will
continue to be made available to Parliament. The Treasury propose that all
self-financing Agencies, such as the Vehicle Inspectorate and Companies
House, should aim to produce full commercial-style reports and accounts
as soon as practicable.

51. In due course, subject to the legislation referred to in paragraph 33
being enacted, the Vehicle Inspectorate and Companies House are
expected to produce Trading Fund Accounts comprising an Income and
Expenditure Account, a Balance Sheet, and a Statement of Sources and
Application of Funds. As for the HMSO Trading Fund, these Accounts
will be examined and certified by the Comptroller and Auditor General,
and copies laid before Parliament. In the meantime, in keeping with its
commercially orientated approach, and in anticipation of Trading Fund
status, the Vehicle Inspectorate is working towards the preparation of
more commercial type accounts, though these will rank as non-formal
accounts.

Accountability to Parliament

52. Framework documents for Agencies must identify the respective
responsibilities of the Agency and its parent department. Ministers of
parent departments will remain accountable overall to Parliament, and will determine the policy, objectives, targets and resourcing of Agencies. However, it is expected that Members of Parliament will generally wish to deal directly with Chief Executives on operational matters for which the Chief Executives are responsible under the terms of the framework document. Ministers will also regard Chief Executives as normally being best placed to answer on their behalf before Select Committees in relation to the operations of Agencies.

53. In November 1988, the Financial Secretary to the Treasury, after taking account of the views of the Committee of Public Accounts and the Treasury and Civil Service Committee, informed the House of Commons that the Chief Executive of an Agency would be its Accounting Officer where the Agency was a separate department or had its own Vote. Where the department's Accounting Officer for the Vote (or Votes) from which the Agency was financed retained Accounting Officer responsibility for the Vote, he would designate the Chief Executive as Agency Accounting Officer. In these circumstances the departmental Accounting Officer would send the Agency Accounting Officer a letter of appointment which would define his duties as Agency Accounting Officer in the light of the powers and responsibilities assigned to him in the Agency framework document.

54. Treasury guidance on the delineation of responsibilities of departmental Accounting Officers and Agency Accounting Officers was issued at the beginning of May 1989. The guidance specifies that the Agency Accounting Officer will be responsible for the Agency's use of resources in carrying out its functions, and that, under the Minister, the departmental Accounting Officer will retain responsibility, inter alia, for the allocation of resources to the Agency, the contents of the framework document and the setting of performance targets for the Agency. Whether the Accounting Officer of an Agency or the Agency Accounting Officer, the Chief Executive will have a direct and personal responsibility for the Agency's expenditure.

55. The arrangements set out above will enable the Committee of Public Accounts to require the Chief Executive of an Agency to give evidence to the Committee in whichever Accounting Officer designation he may have: either as the Agency Accounting Officer appearing normally alongside the Departmental Accounting Officer, or as the Accounting Officer for the Agency's Vote or Fund.

56. For the Agencies already established, the Controller and Chief Executive of HMSO continues to be its Accounting Officer and the Chief Executives of the Vehicle Inspectorate and Companies House have been appointed Agency Accounting Officers in line with the issued Treasury guidance referred to in paragraph 54.

Conclusions

57. Generally the National Audit Office consider that the OMCS Project Team have carried out their role in relation to the launching of the Next Steps initiative in an energetic, well-organised and effective way. Generally, too, departments have responded to the initiative and set up arrangements and policy and resources frameworks in a sensible way. Clearly, though, much will depend on how their relationships with the
new Agencies (and consequently the definition of the frameworks) evolve in future. The National Audit Office’s specific conclusions are set out below.

On general progress

56. Sound organisational structures, with reliable financial, accounting, and management information systems, are essential pre-requisites for Agencies. And, the OMCS Project Team consider that it is preferable to take longer than expected to set up an Agency rather than establish it on an unprepared and unsound basis. The National Audit Office concur with this view. Last July the Project Manager’s estimate at the time was that perhaps 16 Agencies might be set up by April 1989. In fact about eight are now likely to be set up by July 1989. The OMCS intend to encourage departments, in the light of experience gained, to set more realistic target dates in future. Current expectations are for some 20 Agencies, employing some 80,000 staff, to be in existence by April 1990.

On the identification of candidates for Agency status

59. As regards the departments examined by the National Audit Office, there are reasons for the differing proportions of their total staff presently identified as transferable to Agencies. The main ones are the differing nature of departments’ work, the difficulties of disassembling policy and operational work for some activities, and the existence of Government reviews in some areas. Though the departments’ arrangements for identifying Agency candidates varied, they had all adopted a systematic approach to the identification process, and they had also considered carefully what steps were necessary to make activities properly prepared for Agency status. While in the case of the first three Agencies the measures referred to in paragraph 23 were not implemented prior to their Agency status, it would be unreasonable to expect departments to identify and/or implement every possible desirable change before the transition to Agency status, especially as modification and development in the light of experience is fundamental to the Next Steps approach.

On providing greater freedom to Agencies

60. The increased freedoms to Agencies are for operational matters: their parent departments retain responsibility for the policy and resources of Agencies, including target setting. Accordingly, departments and relevant Ministers have the ultimate responsibility for safeguarding the public purse in respect of Agencies, and for safeguarding the provision and quality of services provided to the public by them. Subject to the need for formal commercial accounts for the Vehicle Inspectorate and Companies House, which await new legislation enabling Trading Fund status, and subject to the determination of the precise HMSO reporting arrangements to Treasury Ministers, it appeared to the National Audit Office that satisfactory control and monitoring arrangements had been established for this purpose for the first three Agencies.

On accountability to Parliament

61. The creation of Agencies to deliver Government services has involved important matters of public accountability. Agencies are to be subject to
examination by the Comptroller and Auditor General in respect of their financial transactions, their formal accounts, and the efficiency, effectiveness and economy with which they have used their resources. Also the present Accounting Officer arrangements are to be extended to provide for the Chief Executives of Agencies to be Agency Accounting Officers where they are not Accounting Officers in their own right. The Chief Executives would then have a direct and personal responsibility for their Agency's expenditure, on which they may be required to give evidence to the Committee of Public Accounts. Such arrangements should safeguard the principles of accountability to Parliament for funds provided to the new Agencies.

General

62. The Next Steps initiative is aimed at securing the more efficient and effective delivery of Government services. Consistent with Government's priorities for the initiative (paragraph 4), the first three Agencies have been given additional financial delegations and additional responsibilities for staffing matters, including the introduction and extension of staff pay linked to performance, subject to Treasury agreement. These additional freedoms should enhance their abilities to operate independently within their policy and resources frameworks, and to achieve the more demanding financial and other performance targets that have been set for them upon their Agency status. And, in the longer term, as an Agency becomes more experienced in the conduct of its business, the Treasury expect it to be given further delegated powers where this is expected to deliver further improvements in value for money from the Agency. If continued, this early demonstrated commitment on the part of parent and central departments to the thrust of the initiative should augur well for the success of Next Steps.
Appendix 1

Background to the Next Steps initiative

1. In February 1988, the Prime Minister announced that the Government had accepted the four main recommendations in the report by the Efficiency Unit entitled "Improving Management in Government: The Next Steps". The report was concerned with identifying the fundamental changes needed to achieve a further major step forward in the delivery of services and the management of Government. The thrust of the initiative is towards a small central Civil Service providing policy support to Ministers and managing departments; and a range of Executive Agencies carrying out the executive functions of Government, but within policy and resources frameworks set by the Ministers of their parent departments in consultation with the OMCS and the Treasury. An integral part of the initiative is more accountable management. The main aim of Next Steps "is to deliver services more efficiently and effectively, within available resources, for the benefit of taxpayers, customers and staff". To help meet this aim, the Government committed itself to a continuing programme for the establishment of Agencies, applying progressively the lessons of the experience gained.

2. The carrying out of the executive functions of departments by specially established bodies was not a new idea; and the concept of more accountable management in the Civil Service has been a recurring theme over three decades. For example, the Fulton Committee report of 1968 had recommended an early and thorough review of "hiving-off"; and it had urged for managers to be held responsible for performance against budgets, achievements and other tests. Nine years later, the Select Committee on Expenditure (Eleventh Report, Session 1976–77) recommended a determined drive to introduce accountable units of management in all areas of executive work, and where possible in administrative work. Notwithstanding a number of management reforms to improve efficiency in the Civil Service, the most significant step forward towards more accountable management did not emerge until the Financial Management Initiative, launched in 1982.

The Financial Management Initiative

3. This called for all central Government departments to review their systems of managerial responsibility, financial accounting and control. Then to formulate plans for the whole of their activities to promote an organisation and a system in which managers at all levels would have:

- a clear view of their objectives; and means to assess, and wherever possible measure, outputs or performance in relation to those objectives;
- well-defined responsibility for making the best use of their resources, including a critical scrutiny of output and value for money; and
- the information (particularly about costs), the training and the access to expert advice which they needed to exercise their responsibilities effectively.

4. Departments’ progress in implementing the Financial Management Initiative was examined by the Committee of Public Accounts of Session 1986–87 (Thirteenth Report) on the basis of an investigation report by the National Audit Office. The Committee noted that the pace of progress varied between
departments; and that full implementation of the Initiative for some departments was still many years away. They concluded that a major effort was needed to speed up implementation. Inter alia, they emphasised the need for clear and preferably quantified objectives in all areas, with yardsticks against which to measure performance; and that high priority should be given to examining how line managers could be delegated more effective responsibility for the resources they controlled, including more flexibility on staffing matters. They also emphasised that there must be a willingness on the part of top management in departments to make any organisational and management changes needed to enable the Initiative to take root and flourish.

The Next Steps initiative

5. In November 1986, the Efficiency Unit of the Prime Minister’s Office was commissioned to undertake a scrutiny of management in the Civil Service. Its report — “Improving Management in the Government: The Next Steps” — noted that there were relatively few external pressures demanding improvement in the performance of Civil Service work. It considered that the Civil Service, with 600,000 employees, was too big and too diverse to manage as a single entity. And it observed that its senior management was dominated by people whose skills were in policy formulation and who had little experience of managing or working on service delivery, on which some 95 per cent of civil servants were employed.

6. Five main issues emerged from the Unit’s study:

- a lack of clear and accountable management responsibility, and the self-confidence which goes with it, particularly among the higher ranks in a department;
- the need for greater precision about the results expected of people and of organisations;
- a need to focus attention on outputs as well as inputs;
- the handicap of imposing a uniform system on an organisation of the size and diversity of the Civil Service; and
- a need for sustained pressure for improvement.

7. The Unit recommended a fundamental change to the organisation of Government based on the establishment of Agencies to carry out the executive functions of Government within frameworks set by their parent departments which would specify policy, budgets, specific targets, the results to be achieved, and management’s delegated authorities. Within the pattern of departments devolving more responsibility to Agencies, central departments would continue to be responsible for allocating resources and ensuring pressure for continued improvement in results. The intention was that, while the main strategic control of the Agencies’ activities would remain with departments and Ministers, the management of Agencies would have as much independence as possible in deciding how the objectives set for them were met. To strengthen the operational effectiveness of Agencies the Unit looked for their management freedoms to extend to the structure of Agencies, and to recruitment, pay and grading of staff. It also pointed to the need for departments to ensure that staff were properly trained and experienced in the delivery of services, and that they had people with the managerial skills — at all levels — necessary to run Agencies.

8. In February 1988 the Prime Minister announced the Government’s acceptance of the four main recommendations of the Efficiency Unit’s report.
(a) that to the greatest extent practicable, the executive functions of Government, as distinct from policy advice, should be carried out by units clearly designated within departments, called Agencies;

(b) that the Government should commit themselves to a progressive programme for achieving this objective;

(c) that staff should be properly trained and prepared for management of the delivery of services;

(d) that a Project Manager at senior level should ensure that the programme of change took place.
Appendix 2

The central roles of the Office of the Minister for the Civil Service, and the Treasury

The OMCS

1. One of the recommendations of the Efficiency Unit's report "Improving Management in Government: The Next Steps" was that a Project Manager at senior level should be appointed to ensure that the programme of change takes place. In February 1988, the Prime Minister announced that a Second Permanent Secretary in the Office of the Minister for the Civil Service would be responsible through the Head of the Home Civil Service to her for managing the process of change needed to implement the recommendations in line with the Government's decision that to the maximum extent practicable its executive functions should be carried out by units designated as Agencies. The Project Manager is supported by a small Project Team, but draws on a number of other resources within the OMCS.

2. Among the general tasks of the Project Manager are:

- to ensure that departments are well informed about Next Steps proposals and how these affect them; and that they understand what is required of them and when;
- to develop in conjunction with departments a progressive programme for the establishment of Agencies to bring about lasting improvements in the quality and efficiency of Government services; and to maintain the pressure for rapid and extensive change to achieve this;
- to guide departments in taking the practical steps necessary to establish an Agency once a suitable activity has been identified; ensuring that, where appropriate, experience is shared and common lessons learned; and facilitating any necessary contacts between departments and Agencies over particular issues;
- to identify and tackle the broad issues which arise;
- to ensure that effective training and personnel management policies aimed at improving management and delivery of services are designed and introduced; and
- to evaluate and report progress at regular intervals (the Project Manager has made two progress reports to the Prime Minister so far).

3. As part of the Project Manager's general role in managing the process of change, he is responsible for assisting in the setting up of individual Agencies, for promoting the resolution of difficulties and for ensuring that the Agency is established successfully within whatever timescale is agreed. He is also responsible for ensuring that Agencies are set up on a sound and durable basis, and that the steps set out in guidance approved by Ministers have been fully met, including consideration of the alternatives to Agency status, amongst them privatisation. He pays particular attention to the relationship between the Agency and the responsible Minister to ensure clarity of functions, responsibilities and accountability. More widely, he is also concerned to ensure that full weight is
given to the priorities for the Agency programme listed in paragraph 4 of the main report. He also ensures that the framework document of an Agency provides for regular review of the Agency and the document in the light of the Agency’s progressive development and changing circumstances. He will ensure that such reviews take place and that consideration is regularly given to widening the scope of local management freedom and responsibility to promote an increasingly effective, economic and responsive service.

4. In line with the above responsibilities, the Project Team discuss each proposed Agency candidate with those involved in the department and the Agency and agree, along with the Treasury, its draft framework document prior to submission to Departmental Ministers and then Treasury and OMCS Ministers for approval.

The Treasury

5. The Treasury is closely involved in implementing the Next Steps initiative in view of their continuing responsibilities for financial management and value for money, public expenditure control, and pay and personnel issues including recruitment policy. Their main aim is to ensure there is a progressive improvement in efficiency beyond that which would otherwise have been achieved.

6. Accordingly, before an Agency is launched, the responsible Minister must agree an appropriate policy and resources framework with the Treasury as well as with the OMCS. What is appropriate will vary from Agency to Agency but the Treasury as well as the Project Manager will wish to be satisfied that:

- the alternatives to Agency status have been properly considered;
- framework documents clearly set out the aims and objectives of the Agency, the proposed accounting and control arrangements and the respective responsibilities of the responsible Minister, the parent department (if any), and the Chief Executive;
- the parent department have given careful consideration to the extent to which matters for which they are responsible can be delegated to the Agency;
- Agencies are set challenging performance targets, preferably before they are launched;
- where Agencies are given additional freedoms from central controls these are clearly related to prospective improvements in efficiency and effectiveness;
- Agencies have developed or are developing budgetary and management information systems in accordance with best public sector practice;
- Agencies are properly accountable for public funds and will provide the responsible Minister, Parliament and the taxpayer with a published report on their activities.

Steering and liaison arrangements for the initiative

7. A Project Executive was established for the initiative, composed of representatives from the OMCS, the Treasury, the Efficiency Unit, and the Project Team. It is responsible for considering key central issues such as pay, recruitment and Agency financial regimes, and for preparing or commissioning material on such issues in preparation for meetings with departments in the Project Liaison Groups. There are two Project Liaison Groups — one for large departments and one for small departments. The Groups draw their membership from the Project
Executive and from nominated senior staff from departments. They consider material prepared by the Project Executive and act as forums for exchanging information, including good practices, on developing and administering Agencies.

8. In addition, there are LUMPS (Large Unit Management Programmes) conferences and seminars, which aim to give middle managers a forum for learning about and debating important across-the-board issues relating to Next Steps; two videos on the initiative for showing within and outside the Civil Service; and the Project Team has issued one edition of "Next Steps News", intended to keep civil servants abreast of developments.
Appendix 3

Executive Agencies established or announced: 12 May 1989

<table>
<thead>
<tr>
<th>Executive Agencies established</th>
<th>Department</th>
<th>Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>*Vehicle Inspector&amp;</td>
<td>Transport</td>
<td>1,600</td>
</tr>
<tr>
<td>*Companies House</td>
<td>Trade and Industry</td>
<td>1,100</td>
</tr>
<tr>
<td>*Her Majesty's Stationery Office</td>
<td>—</td>
<td>3,000</td>
</tr>
<tr>
<td>National Weights &amp; Measures Laboratory</td>
<td>Trade and Industry</td>
<td>50</td>
</tr>
<tr>
<td>Warren Spring Laboratory</td>
<td>Trade and Industry</td>
<td>300</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Candidates announced</th>
<th>Department</th>
<th>Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building Research Establishment</td>
<td>Environment</td>
<td>700</td>
</tr>
<tr>
<td>Central Statistical Office (incorporating Business Statistics Office)</td>
<td>Treasury</td>
<td>1,100</td>
</tr>
<tr>
<td>Central Office of Information</td>
<td>—</td>
<td>850</td>
</tr>
<tr>
<td>Central Veterinary Laboratory</td>
<td>MAFF</td>
<td>600</td>
</tr>
<tr>
<td>Civil Service College</td>
<td>Office of the Minister for the Civil Service</td>
<td>200</td>
</tr>
<tr>
<td>Civil Service Commission Recruitment Service</td>
<td>Office of the Minister for the Civil Service</td>
<td>300</td>
</tr>
<tr>
<td>Civil Service Occupational Health Service</td>
<td>Office of the Minister for the Civil Service</td>
<td>150</td>
</tr>
<tr>
<td>Crown Suppliers Fuel Branch</td>
<td>Environment</td>
<td>30</td>
</tr>
<tr>
<td>*Defence Non-Nuclear Research Establishments</td>
<td>Defence</td>
<td>15,000</td>
</tr>
<tr>
<td>Department of Registers of Scotland</td>
<td>Scottish Office</td>
<td>900</td>
</tr>
<tr>
<td>*Driver and Vehicle Licensing Directorate</td>
<td>Transport</td>
<td>5,400</td>
</tr>
<tr>
<td>Driver Testing and Training</td>
<td>Transport</td>
<td>2,000</td>
</tr>
<tr>
<td>*Employment Service</td>
<td>Employment</td>
<td>41,000</td>
</tr>
<tr>
<td>Historic Buildings and Monuments Directorate</td>
<td>Scottish Office</td>
<td>650</td>
</tr>
<tr>
<td>*Historic Royal Palaces</td>
<td>Environment</td>
<td>300</td>
</tr>
<tr>
<td>Organization</td>
<td>Department</td>
<td>Staff</td>
</tr>
<tr>
<td>---------------------------------------------------</td>
<td>---------------------</td>
<td>-------</td>
</tr>
<tr>
<td>Intervention Board for Agricultural Produce</td>
<td>—</td>
<td>1,000</td>
</tr>
<tr>
<td>Insolvency Service</td>
<td>Trade and Industry</td>
<td>1,500</td>
</tr>
<tr>
<td>Laboratory of the Government Chemist</td>
<td>Trade and Industry</td>
<td>350</td>
</tr>
<tr>
<td>Land Registry</td>
<td>—</td>
<td>8,250</td>
</tr>
<tr>
<td>*Meteorological Office</td>
<td>Defence</td>
<td>2,500</td>
</tr>
<tr>
<td>National Physical Laboratory</td>
<td>Trade and Industry</td>
<td>850</td>
</tr>
<tr>
<td>*Passport Department</td>
<td>Home Office</td>
<td>1,000</td>
</tr>
<tr>
<td>Patent Office</td>
<td>Trade and Industry</td>
<td>1,165</td>
</tr>
<tr>
<td>Planning Inspectorate</td>
<td>Environment</td>
<td>500</td>
</tr>
<tr>
<td>*QEII Conference Centre</td>
<td>Environment</td>
<td>60</td>
</tr>
<tr>
<td>Radiocommunications Division</td>
<td>Trade and Industry</td>
<td>500</td>
</tr>
<tr>
<td>*Resettlement Units</td>
<td>Social Security</td>
<td>600</td>
</tr>
<tr>
<td>*Royal Parks</td>
<td>Environment</td>
<td>600</td>
</tr>
<tr>
<td>Social Security Operations(2)</td>
<td>Social Security</td>
<td>87,000</td>
</tr>
<tr>
<td>Training Agency</td>
<td>Employment</td>
<td>12,000</td>
</tr>
<tr>
<td>Vehicle Component Approval Division</td>
<td>Transport</td>
<td>70</td>
</tr>
<tr>
<td>Veterinary Medicines Directorate</td>
<td>MAFF</td>
<td>80</td>
</tr>
</tbody>
</table>

**Northern Ireland Civil Service:**

- Employment and Training Services
- Agricultural Research Establishments
- Social Security Operations

*Candidates announced by the Prime Minister on 18.2.88.

#Estimated numbers as of 1.4.88. Current staff in post figure may differ.

(1)Launched as an Executive Agency on 24.5.89.

(2)In a statement on 17 May 1989, the Secretary of State for Social Security referred to proposals to establish at least two Agencies in this area.
Appendix 4

The detailed review analysis of potential Agency candidates

In the initial consideration of potential Agencies the parent department should consider the alternatives of privatisation, contractorisation, public corporation status, or whether the activity is needed at all. Thereafter, the parent department must subject each activity identified as a potential Agency to a detailed review analysis to decide whether it should proceed to Agency status. The review analysis examines:

- the prospective Agency's aim and objectives, and the functions to be covered;
- the adequacy of the Agency's internal management and financial systems;
- the type of organisation best suited to ensure the desired results;
- the benefits sought from the Agency approach;
- the resources currently employed in the areas to be covered by the Agency;
- the inputs/outputs/unit costs now achieved in the areas, and proposed changes;
- any new or modified functions to be carried out by the Agency;
- existing and planned performance measures;
- the pay and expenditure regime;
- the state of industrial relations within the Agency;
- any legislation likely to be required;
- the arrangements for answerability to Parliament and to individual Members.
Appendix 5

Departments’ arrangements for identifying and preparing activities for Agency status

1. The National Audit Office examined the arrangements of five departments for identifying services and functions suitable for Agency status — the Department of Trade and Industry, the Department of Transport, the Department of Social Security, the Ministry of Agriculture, Fisheries and Food, and the Department of Health. For the first three departments, the examination also covered their arrangements for preparing services and functions for Agency status.

Department of Trade and Industry — (staff complement: 12,500)

Identification

2. The Financial and Resource Management division of the department has overall responsibility for Next Steps within the department, with the division’s head appointed as Next Steps co-ordinator. The department’s activities are being reviewed systematically, to a timetabled workplan, on the basis of the department’s functional directory, including common and support services (eg accounts branch, computer services and training).

3. The first examination of the suitability of an activity for Agency status is made by the branch responsible for the activity. At February 1989, the department had established one Agency, (Companies House), and had identified a further eight candidate activities for Agency status (including the Business Statistics Office, now incorporated with the Central Statistical Office as a candidate for Agency status). These activities account in total for some 6,500 of the department’s staff. As paragraph 10 of the Report shows, as at May 1989, the department had established a further two Agencies: Warren Spring Laboratory and the National Weights and Measures Laboratory.

4. Some small services and functions were considered unsuitable for Agency status on account of their size. Another activity was considered unsuitable because of its large policy element and the involvement of staff from another department, but some of its services are to be contracted out. The department intend to review again, in 1989, all services (including support services) which they presently expect to remain within the department.

Preparation

5. Potential agencies in the Department of Trade and Industry are responsible for reviewing their organisation and structure to identify any needed measures for Agency status. Their proposals are examined by the department’s Finance and Resource Management division and have to be agreed by the department’s Minister. Internal timescales are set for the implementation of measures, though the department regard these as indicative, subject to change in the light of developments.

The Department of Transport — (staff complement: 14,800)

Identification

6. The department’s Transport Policy Management Board has oversight responsibility for the identification of Agency candidates, and the department’s Finance Directorate branch acts as the co-ordinating body for this work. Candidate
Agencies approved by the Board are examined in detail by the department's branches responsible for them. Although the department did not draw up a timetabled workplan for the identification activity across the department, some submission dates for individual activities were set during the identification process.

7. Apart from the Vehicle Inspectorate, at February 1989 the department had identified three firm candidate activities, employing some 7,500 staff (more than half of the department), and was evaluating one possible further candidate, employing 600 staff. A number of services and functions were considered unsuitable for Agency status, being mainly concerned with policy work, but one activity may be re-considered for Agency status later.

Preparation

8. The detailed review analysis of an Agency candidate to determine measures needed prior to establishment of an Agency is carried out by line management assisted by Finance and policy divisions responsible for matters affecting the Agency. Executive Agency Project groups have been established to bring together the key people with responsibility for developing Agency proposals and securing their implementation.

9. Although no overall timetabled plan has been drawn up for preparing Agency status, target dates were set for different stages of the process for individual candidates. Following a review by consultants of the financial regime of the department's Driver and Vehicle Licensing directorate, the indicative target date for Agency status for the directorate was postponed by one year to April 1990 to allow the installation and testing of a revised financial system.

Department of Social Security — (staff complement: 92,000)

Identification

10. The department's Central Resource Management branch has overall responsibility for progressing the Next Steps initiative within the department. The department identified their Resettlement Units, employing 600 staff, as an early potential Agency candidate, and the Units were one of the 12 candidate Agencies originally announced by the Government in February 1988. Following internal discussions about possible further candidates, in July 1988 the department set up a small study team to review Social Security Operations, employing some 87,000 staff, in general to determine which, if any, might be suitable for Agency status. Consideration of Agency status for the department's common services and specialist advice and research services has been deferred pending the progression of the Social Security Operations to Agency status.

Preparation

11. The study team responsible for reviewing Social Security Operations also assists the preparation of candidates for Agency status. The availability of management accounting information for the Resettlement Units is to be improved prior to Agency status, and the conversion to Agency status will take place in May 1989. In the case of Social Security Operations, the identification of needed measures for Agency status was at an early stage, and was not therefore examined by the National Audit Office.
The Ministry of Agriculture, Fisheries and Food — (staff in post: 10,300)

Identification

12. The department’s Manpower Division has overall co-ordinating responsibility for implementing the Next Steps initiative within the department, including the identification of Agency candidates, under the guidance of the department’s Management Board and with the collaboration of line management in the individual services and groups. A systematic analysis was carried out on the basis of the department’s Top Management System (MINIM). Rather than attempting to draw up a timetabled workplan covering the whole of the identification process, the department have given priority to the most suitable candidates emerging from this analysis.

13. The department have so far identified two candidates for Agency status, the Central Veterinary Laboratory, employing some 600 staff, and the Veterinary Medicines Directorate, employing some 80 staff; and feasibility studies are in hand with a view to final decisions in time for the establishment of Agencies by April 1990, if possible. In addition, the Intervention Board for Agricultural Produce, which is a separate department responsible to the four Agriculture Ministers and employs some 900 staff, has been identified as an Agency, also with a target date of April 1990. The department are continuing their studies of other possible Agency candidates. They consider that the close links between policy and execution, the extent of recent reorganisations and competing claims on the resources required (especially senior management time) limit the scope for converting to Agency status many of their functions and the pace at which Agencies can be established.

The Department of Health — (staff numbers: 8,600)

Identification

14. Individual branches are responsible for identifying Agency candidates, with the Central Resources Management branch having overall responsibility for implementing the Next Steps initiative within the department, and with the Principal Establishment and Finance Officer designated the co-ordinating officer. Because of uncertainties arising from the split of the old Department of Health and Social Security and the National Health Service Review, the department have not yet prepared a comprehensive strategy or a timetabled plan for identifying potential Agency candidates. However, the management of the Special Hospitals Service, the Disablement Services Authority and other services are being separated from the central department using techniques, such as the creation of Special Health Authorities, appropriate to health service functions. Medicines control has been vested in a self financing body, the Medicines Control Agency, working with an agreed framework from 1 April 1989. Other functions, involving some 1,200 staff, are being considered as candidates for Next Steps Agencies. The department considers that the policy nature of much of the rest of its work limits the scope for extending Agency status to the remaining central activities.
Appendix 6

Vehicle Inspectorate Executive Agency — Framework document

<table>
<thead>
<tr>
<th>Parent Department</th>
<th>Department of Transport</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency functions</td>
<td>To conduct statutory annual tests on Heavy Goods Vehicles (HGVs) and Public Service Vehicles (PSVs); to supervise the MoT car testing scheme; for carrying out spot roadworthiness checks on HGVs and PSVs; and for a variety of other road safety functions.</td>
</tr>
<tr>
<td>Date of establishment</td>
<td>1 August 1988</td>
</tr>
<tr>
<td>Annual expenditure</td>
<td>£29.8 million (1988–89 Estimate)</td>
</tr>
<tr>
<td>Annual revenue</td>
<td>£32.2 million (1988–89 Estimate)</td>
</tr>
<tr>
<td>Staff resources (1988–89)</td>
<td>1,623 staff, located in offices and testing stations throughout the country, and at the Agency headquarters in Bristol.</td>
</tr>
<tr>
<td>Main aim</td>
<td>To promote, through the application of engineering and business best practice, road safety efficiently and effectively by enforcing prescribed, or relevant vehicle safety standards.</td>
</tr>
<tr>
<td>Objectives</td>
<td>The Agency's main objective is to promote road safety through the enforcement of prescribed or relevant vehicle safety standards through the exercise of its statutory responsibilities. Inter alia, the Agency is expected to:</td>
</tr>
<tr>
<td></td>
<td>- improve the efficiency and effectiveness of the service it provides by keeping under constant review its technical and operational policies;</td>
</tr>
<tr>
<td></td>
<td>- recover the full costs of its fee-earning services;</td>
</tr>
<tr>
<td></td>
<td>- maintain a competent and efficient workforce sufficient to meet its aims and objectives; and</td>
</tr>
<tr>
<td></td>
<td>- devise and introduce, in consultation with the Treasury and staff interests, an incentive payment system designed to motivate staff to achieve improved efficiency and productivity.</td>
</tr>
<tr>
<td>Targets</td>
<td>The Agency’s financial target is to improve overall cost efficiency in its three main activities by 3.7 per cent over the two years from 1 April 1989 to 31 March 1991. Previously the Vehicle Inspectorate had</td>
</tr>
</tbody>
</table>
Performance Indicators

The Agency's main performance indicators are:

- work units per vehicle examiner.
- cost per standard hour for the HGV annual test.
- cost per standard hour for the PSV annual test.
- number of HGV inspection visits.
- number of PSV inspection visits.
- number of MoT garage visits.

Existing quality of service indicators remain in place. These include:

- ability to meet customers preferred date for testing.
- turnaround times in meeting requests for the inspection of HGV and PSV operators' premises.
- turnaround times in handling MoT appeals.

Main additional financial flexibilities

Authority to transfer funds between and within capital and current expenditure subject to detailed rules set out in the framework document.

Main additional staffing and pay flexibilities

Responsibility for staff complementing up to and including Grade 7 subject to detailed safeguards set out in the framework document (eg. ensuring that grading standards are maintained).

Responsibility for personnel management for Professional and Technical grades up to and including Senior Professional and Technical Officer — including recruitment, discipline and termination of service.

Accounting arrangements and Form of Accounts

The Vehicle Inspectorate will continue for the time being to be funded from a Department of Transport Vote, and its receipts and payments will be accounted for in the department's annual Appropriation Accounts. The Agency will continue to prepare an annual Memorandum Trading Account. In keeping with its commercially-orientated approach, and as a move towards possible Trading Fund status, it will also produce an annual profit and loss account, balance sheet, and cash flow statement. A summary of the accounts will be published annually, and laid before Parliament.
### Reporting arrangements

For internal information and control purposes, the Vehicle Inspectorate will also maintain full cost management accounts.

The Agency is required to produce quarterly reports in a prescribed form to the Department of Transport. The required information includes expenditure and income and forecast outturn for specified budget heads, and for total budget; staff-in-post compared with approved complement by groups of grades; business volumes compared with forecasts; and performance indicators compared with targets, including unit cost targets for HGV and PSV annual tests. The Agency will continue to produce an Annual Report, including performance against targets, and financial statements on income and expenditure, capital investment and fees. The Annual Report will be laid before Parliament.

### Accounting Officer arrangements

The Permanent Secretary of the Department of Transport will continue to be the Accounting Officer in respect of the Vehicle Inspectorate.

The Chief Executive of the Inspectorate has been appointed as Agency Accounting Officer.

### National Audit Office comments

The Vehicle Inspectorate's functions, aims and objectives are broadly the same as those pre-Agency status. Its organisation and structure are also the same, but its Management Board is to be replaced by an Executive Board and Operations Board. Its resources are broadly the same, apart for a major equipment replacement programme.

The Department of Transport decided that a number of measures desirable for Agency status could be introduced after the Agency was established. The measures concerned were the revised senior management structure, further quality of service indicators, and a staff incentive pay scheme.
Appendix 7

Companies House Executive Agency — Framework document

<table>
<thead>
<tr>
<th>Parent Department</th>
<th>Department of Trade and Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency functions</td>
<td>The maintenance of the companies register, including the registration of new companies, processing information on companies, including those moving into liquidation, and the retention and dissemination of the information. The Agency also administers certain of the Secretary of State’s discretionary powers under the Companies Acts, in particular those relating to company names.</td>
</tr>
<tr>
<td>Date of establishment</td>
<td>3 October 1988</td>
</tr>
<tr>
<td>Annual expenditure</td>
<td>£19.0 million (1988–89 Estimate)</td>
</tr>
<tr>
<td>Annual revenue</td>
<td>£32.9 million (1988–89 Estimate)</td>
</tr>
<tr>
<td>Staff resources</td>
<td>1,083 staff (authorised complement, April 1988) located in the companies registration offices in Cardiff and Edinburgh, and also in London.</td>
</tr>
<tr>
<td>Main aim</td>
<td>To help secure a more efficient market by improving the provision of information to business thereby facilitating British business life.</td>
</tr>
<tr>
<td>Objectives</td>
<td>The Agency’s objectives include:</td>
</tr>
<tr>
<td></td>
<td>— improving the provision of basic information and services to its customers;</td>
</tr>
<tr>
<td></td>
<td>— setting prices for the provision of information on the basis of costs;</td>
</tr>
<tr>
<td></td>
<td>— discharging its functions with due regard to efficiency and economy, and the financial objectives and performance targets which it is set.</td>
</tr>
<tr>
<td>Targets</td>
<td>In March 1989 the Agency was set targets to achieve:</td>
</tr>
<tr>
<td></td>
<td>— a 10 per cent reduction in the proportion of companies which have not filed accounts and annual returns required by the Companies Act, so that by June 1991 the compliance rate will be increased to 83 per cent;</td>
</tr>
<tr>
<td></td>
<td>— a 20 per cent reduction in the time taken to process documents, so that by April 1991 documents are on average available to the public within 18 working days of being delivered to Companies House;</td>
</tr>
</tbody>
</table>
THE NEXT STEPS INITIATIVE

Performance Indicators

- a 12 per cent increase by April 1991 in output per member of staff;
- a 7 per cent decrease by April 1991 in unit costs in real terms.

Main additional financial flexibilities

The Agency's main performance indicators are:

- workload levels (using 1984–85 as a base year).
- aggregate unit costs (using 1987–88 target as a base).
- unit costs for key activities.
- aggregate productivity index (using 1984–85 as a base year).
- output per man year for key activities.

End-year flexibility on capital expenditure of 25 per cent, compared with a five per cent norm for departments (NB: Subject to an underspend on the Vote, this allows a carry forward from one year to the next of underspends on capital projects).

May adjust expenditure to meet demand for its activities, whether or not these are fee-bearing, and provided that its expected overall unit costs remain within five per cent of targets. (NB: This change was made with effect from 1 April 1988, and therefore preceded Agency status).

Main additional staffing and pay flexibilities

May switch between and within capital and current expenditure without recourse to Treasury.

Responsibility for career management of staff in mobile grades up to Senior Executive Officer; for recruiting clerical and support staff; and for limited period appointments (up to five years) at Grade 7 and below.

Introduction of a bonus scheme for staff to encourage the meeting of Agency targets. The Chief Executive and key staff will have separate performance-related bonus arrangements.

Accounting arrangements and Form of Accounts

Companies House receipts and payments will continue to be accounted for in the relevant Vote Appropriation Account of the Department of Trade and Industry. Also, the Agency will continue to produce an internal Memorandum Trading Account. Summary accounting information will be incorporated in the Agency's published Annual Report, which will be placed in the Libraries of the House of Parliament.
Reporting arrangements: The Agency is required to render quarterly reports to the Department of Trade and Industry, and, in summary form, to the Treasury. The required information includes expenditure and income and forecast outturn for specified budget heads and for total budget; staff-in-post against targets; progress against specified targets including productivity, quality of service and reduction of unit costs; and on workload. Companies House will produce an Annual Report, detailing progress against targets for the year and including summarised accounts, which will be placed in the Libraries of the Houses of Parliament.

Accounting Officer arrangements: The Permanent Secretary of the Department of Trade and Industry remains the Accounting Officer in respect of the Agency. The Agency Chief Executive has been appointed as Agency Accounting Officer.

National Audit Office comments
Companies House continues to exercise the same function as it did prior to Agency status, and has broadly the same resources, although its exemption from gross running costs control will allow it to adjust expenditure in line with demand. As it was previously a discrete accountable unit within the Department of Trade and Industry, the department considered that it already had in place the management and financial systems and an organisational structure suitable for Agency status; and that a training needs analysis and the introduction of a staff bonus scheme could be implemented after Agency status.
Appendix 8

Her Majesty’s Stationery Office Executive Agency — Framework document

<table>
<thead>
<tr>
<th>Responsible Minister</th>
<th>Chancellor of the Exchequer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency functions</td>
<td>Printing and publishing for Parliament and Government departments, the supply of stationery and office machinery for the public service, and the sale of publications for the public service and international organisations.</td>
</tr>
<tr>
<td>Date of establishment</td>
<td>14 December 1988</td>
</tr>
<tr>
<td>Annual expenditure</td>
<td>£325 million (1987–88)</td>
</tr>
<tr>
<td>Annual revenue</td>
<td>£333 million (1987–88). Profit after interest in current terms was £0.8 million.</td>
</tr>
<tr>
<td>Staff resources</td>
<td>3,200 staff, with the Headquarters located in Norwich.</td>
</tr>
<tr>
<td>Main aims</td>
<td>To develop its business along more commercial lines within a competitive environment and to combine a continuing increase in the economy, efficiency and effectiveness with which it delivers its services with the achievement of progressively more demanding financial and performance targets set by Treasury Ministers.</td>
</tr>
<tr>
<td>Objectives</td>
<td>The Agency’s objectives include:</td>
</tr>
<tr>
<td></td>
<td>— providing efficient and effective procurement, production and publishing services which offer better value for money than customers could otherwise achieve;</td>
</tr>
<tr>
<td></td>
<td>— achieving such financial and other performance targets as Treasury Ministers may from time to time determine, after consultation with the Controller and Chief Executive;</td>
</tr>
<tr>
<td></td>
<td>— recovering not less than the prime cost of all services (apart from those covered by the Votes for supplies to Parliament for Hansard and library subsidies) and, as far as possible, to avoid cross-subsidisation between businesses;</td>
</tr>
<tr>
<td></td>
<td>— maintaining a competent and efficient workforce and to provide such training facilities as will best meet its main aims and objectives.</td>
</tr>
<tr>
<td>Targets</td>
<td>For its 1989 financial year, HMSO’s main targets are:</td>
</tr>
</tbody>
</table>
to achieve a profit after interest in current cost terms of £1.7 million (compared with £0.8 million in 1987–88);

value for money savings ranging from 8 per cent for paper and stationery to 11.5 per cent for office machinery, using 1984–85 as a base year. Each target is an increase from its 1987–88 achievement.

HMSO is also required to increase progressively and substantially its annual profit after interest over the next five years.

<table>
<thead>
<tr>
<th>Performance Indicators</th>
<th>In addition to performance indicators for its main financial and value for money targets, HMSO has performance indicators for quality of service, including delivery of jobs to time, jobs delivered without fault, and response times to customers' orders.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main additional financial flexibilities</td>
<td>Increased delegation of authority for capital expenditure from £1 million to £4 million.</td>
</tr>
<tr>
<td>Main additional staffing and pay flexibilities</td>
<td>Freedom to introduce, in agreement with the Trades Union Side and the Treasury, new pay and grading arrangements best suited to HMSO's commercial orientation.</td>
</tr>
<tr>
<td>Accounting arrangements and Form of Accounts</td>
<td>HMSO will continue to have its own Votes for supplies to Parliament and subsidies. It will also continue to prepare annual Trading Fund Accounts which, starting 1989, are to be changed to a calendar year basis, expected to be published around April each year. The Accounts will be audited by the Comptroller and Auditor General, and will be laid before Parliament. They will meet the disclosure requirements of the Companies Acts, Statements of Standard Accounting Practice, and Statements of Recommended Practice, so far as these are appropriate to HMSO.</td>
</tr>
<tr>
<td>Reporting arrangements</td>
<td>HMSO is required to submit such reports on its activities as Treasury Ministers may require. HMSO will continue to publish an Annual Report, which will include performance against targets and summary accounts.</td>
</tr>
<tr>
<td>Accounting Officer arrangements</td>
<td>The Controller and Chief Executive of the Agency will continue to be the Accounting Officer.</td>
</tr>
</tbody>
</table>
National Audit Office comments

As a separate Government department prior to Agency status, HMSO already had a substantial degree of independence, and there were no changes in its functions, structure, aims and objectives upon its establishment as an Agency. As noted, it has been set more demanding targets for 1989 and beyond.