

# **CULLING THE QUANGOS: WHEN IS DELEGATION REVOKED?**

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### **Abstract**

We investigate the lifespan and risk of termination of 790 arm's length agencies in the United Kingdom over the period 1985 - 2008. We hypothesise that the risk of termination will depend on three groups of factors: factors relating to the rationales for the initial delegation of power to the arm's length agency and the form of delegation; factors relating to the policy position of the government; and factors relating to the economy. We find that agencies which have a regulatory function (particularly an economic regulation function), and those designed to ensure probity of decision-making are less likely to be terminated in any given year. Agencies structured as executive non-departmental public bodies and non-ministerial departments are also longer-lived than others. Agencies operating under right-wing governments and under heavily indebted governments are more likely to be terminated, although left-wing governments are more sensitive to the effects of debt.

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We investigate the lifespan and risk of termination of 790 arm's length agencies in the United Kingdom over the period 1985 - 2008. We hypothesise that the risk of termination will depend on three groups of factors: factors relating to the rationales for the initial delegation of power to the arm's length agency and the form of delegation; factors relating to the policy position of the government; and factors relating to the economy. We find that agencies which have a regulatory function (particularly an economic regulation function), and those designed to ensure probity of decision-making are less likely to be terminated in any given year. Agencies structured as executive non-departmental public bodies and non-ministerial departments are also longer-lived than others. Agencies operating under right-wing governments and under heavily indebted governments are more likely to be terminated, although left-wing governments are more sensitive to the effects of debt.

From the perspective of the regulatory state, the longevity of arm's length agencies is a strength. Long-lived, independent regulatory agencies help shape investors' beliefs about the future regulatory environment, allowing investment decisions to be made efficiently. Agency independence helps to establish a credible government commitment to regulatory stability, but if agencies can be easily abolished then the commitment problem is simply relocated rather than solved (McCallum, 1995; Perino, 2010). Politicians have also delegated power to arm's length agencies to solve other credibility problems in the political sphere relating to probity (How rigorous is the administration of politicians' expenses?) and technical expertise (How dangerous are illegal drugs?) but again the credibility generated by such delegation may be damaged if agencies are easily abolished.

Despite the potential to damage government credibility, politicians retain and use the power to abolish agencies. Since agencies are neither unbiased nor

infallible, politicians wish to monitor and manage agency performance and to constrain bureaucratic drift (Boin and Goodin, 2007). As policy priorities change over time, politicians will want to ensure that the bureaucracy is reorganised to best deliver new programmes; but by retaining the power to reform agencies, politicians vitiate the credibility that delegation is supposed to produce. Terminating (or retaining) an arm's length agency thus involves a trade-off between the value of policy adaptability and the value of a reputation for stable and credible governance. This article explores that trade-off by analysing the lifespans of arm's length agencies in the UK, concentrating on the impact of policy position and political change on the survival of agencies established during the 23 year period covered by our dataset (1985-2008). We also assess whether agency termination is related to the function an agency performs and its institutional form. In doing so, we attempt to reveal some underlying coherence in the apparent arbitrariness of British delegated governance (Flinders, 2008).

The first section of the paper discusses three rationales for delegation and the how delegation is managed *ex post*. We argue that the cost to a government's reputation of abolishing an agency depends on the rationale for delegation. Section 3 provides a brief background on the position of our agencies in the British political system. Section 4 discusses our data, our modelling strategy and relates our study to similar research in other countries. Section 5 presents and discusses models and section 6 concludes.

Our results support the claim that the rationale for delegation influences an agency's expected lifespan, as does its form. Political change does not seem to matter but the policy position of a current government is associated with termination risk.

## **2. Credibility and Adaptability**

The agencies we consider all perform some public function. They are designed to perform these functions in a manner that is institutionally at 'arm's length' from ministerial direction, but are staffed, and primarily funded, publicly (Talbot, 2004: 5). As Elgie and McMenamin (2005) found, an agency's function may affect the level of independence it enjoys – and, as we argue, its likelihood of termination. Here we consider three rationales for delegation to an agency –

*regulatory commitment, probity and expertise* - and argue that the risk of agency termination is influenced by the dominant rationale for delegation.<sup>1</sup>

*Regulatory commitment* is the rationale that is most associated with the regulatory state literature (Majone, 1997; Gilardi, 2002). Governments have difficulty committing to particular policies because they are sovereign and, in theory, can change direction when circumstances make such change favourable. The problem is particularly severe in Westminster systems with their combination of parliamentary sovereignty and a tendency towards single party majorities (Moe and Caldwell, 1994). In the literature on economic regulation and monetary policy the problem results from time-inconsistent preferences – governments may have an incentive to change their policies once the actions of investors or wage setters have been observed (Kydland and Prescott, 1977). As a result, investors are likely to be more cautious in their decisions if no institutional mechanisms exist to constrain policy change and a government or political system has a history of policy reversal. A government that wishes to make its commitments to regulatory stability more credible must give up some of the power it holds to change the rules of the game to its own advantage and against the interests of investors (Levy and Spiller, 1995; North and Weingast, 1989). Delegation to an independent agency is one method for giving up power and thus generating regulatory credibility (Gilardi, 2002). The salient feature of delegation is that it is made to an agency that does not share the government's incentive to adjust the regulatory framework *ex post*. Rather, agency preferences are assumed to be stable over time and independent of investors' actions. In the UK the sector regulators - OFGEM, OFWAT, OFCOM - are good examples of delegation to generate regulatory commitment. The challenge of commitment is particularly stark in economic regulation, but similar dynamics exist in any context where governments use arm's length agencies to establish credible regulatory commitments to the rules under which some public or private activity occurs.

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<sup>1</sup> Here, 'rationales' are the publicly justifiable reason for delegations, we do not suggest that in any given instance the rationale is a causal explanation. *Explanations* for delegation could include effort reduction, blame-shifting, and client politics (Bertelli, 2012: 84-88; Hood, 2002; Fox and Jordan, 2011).

A second rationale for delegation is to signal the probity of a process, that the output of an agency is 'fair' and has not been influenced by partisan bias or a decision-maker's self-interest. For example, a grant giving agency, such as the Arts Council or the Heritage Lottery Fund, is set up at arm's length in order to try to insulate the grant allocation process from the electoral interests or the ideological biases of politicians. The institutional depoliticisation of distributive policies is not about commitment across time to a set of rules, but rather about the probity of decision making when there is a conflict of interest, and more particularly about the wish of politicians to signal the probity of decision-making<sup>2</sup>. They send this signal by creating a hard institutional separation between the political design of, for example, a grant programme and the arm's length implementation of the programme by an agency.

Lack of political expertise is the third rationale for implementing policy through an arm's length agency. Where politicians are inadequately informed about the technicalities of a policy problem, governments sometimes delegate the responsibility to provide evidence or policy recommendations to an agency, as is the case with the Advisory Council on the Misuse of Drugs. This body advises on the control of dangerous or harmful drugs, but ultimately decisions on the classification of drugs remain within the remit of ministers. Although decisions are still taken by ministers, the existence of an expert arm's length agency provides some assurance about the quality of the information and analysis which is provided to decision-makers, and where the advice is public it adds to the transparency of the policy process. In some instances decision-making power is delegated to expert agencies on the grounds that experts are best positioned to decide as well as advise.<sup>3</sup>

These three rationales for delegation are all, to some extent, about depoliticising aspects of policy development or implementation, and removing some source of temptation. In our dataset we also have a fourth group of agencies, this group has the role of representing interest groups in the policy process. For

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<sup>2</sup> See, Flinders (2008: 236) on public distrust in politicians as a reason for delegation. Political impartiality was one of the tests applied in the recent review of public bodies (Public Administration Select Committee, 2011: 7).

<sup>3</sup> Where power is delegated to an expert agency, decision-makers are committing to following the expert advice, giving agencies a stronger incentive to become informed (Gailmard and Patty, 2007).

example, consumer or user councils are established to monitor particular markets and some agencies exist to represent particular interests or social groups in the policy process. These agencies act as a check on the bureaucracy either directly or by sounding fire alarms to warn political principals that policy is not being implemented as they would wish (McCubbins and Schwartz, 1984; Holburn and Van den Bergh, 2006).

### *Reputation, rationale and termination*

The arguments for delegation to arm's length agencies rest on recognising the various incentives faced by politicians, and on the possibility of establishing agencies that separate decision-making from those political incentives. The problem is that it is not always safe to assume that an unbiased and expert agency will be available to receive a delegation of responsibility - public bureaucrats vary in competence and sometimes develop their own interests, biases and priorities (Boin and Goodin, 2007). The risk of loss of control associated with delegation can be partly mitigated when the agency is first established, by fixing the level of discretion allotted to it and designing monitoring mechanisms (Huber and Shipan, 2002; Bertelli, 2006). The purpose of these aspects of organisational design is to prevent policy implementation from drifting away from the ideal point of the enacting coalition, as a result of bureaucrats' preferences or interest group pressure.

However, there is also evidence of *ex post* adjustment of delegation in the UK in the form of changing reporting requirements (Bertelli, 2008) and mounting evidence from developed democracies on the circumstances under which agencies are terminated or reformed (Lewis, 2002, 2003, 2004; Boin et al., 2010; special issue of the International Journal of Public Administration, forthcoming). The analysis that we present focuses solely on one tool for reform: the termination of arm's length agencies. In his discussion of the institutional insulation of agencies from termination, Lewis (2004: 381) points out that 'if new legislation can be passed, then all attempts at insulating are useless', a point that is particularly pertinent to the termination of agencies in a Westminster system with a strong executive. However, passing new legislation is costly even in Westminster systems, and for an agency to be insulated from termination all that is required is that the (immediate) costs of

abolition should be greater than their discounted benefits. As Hood pointed out in his review of the early Thatcher reforms, arm's length agencies can be tenacious (Hood, 1981:120). He provides four reasons for the tenacity but our focus is different. We argue that governments care about their reputations for keeping to regulatory commitments, for the probity of decision making and for the rational and well-informed process of policy making. Delegating power to an arm's length agency has the potential to amplify the reputational cost to a government of deviating from these behaviours by making such deviations much more easily observed than would otherwise be the case.

An advantage of studying termination is that it is the most 'visible' agency reform available to a government and is likely to have a wider impact on a government's reputation for credible governance than other types of ex post reform. As well as a direct effect on the perceptions of social groups with an interest in the agency being abolished, abolition of an arm's length agency will send a signal that government can abolish other similar organisations if it so wishes. Termination should more powerfully degrade government's credibility than other lower profile types of reform and, consequently, if we can show political factors at work here, there are good reasons to expect politics to influence other types of intervention in arm's length agencies. We remain agnostic about what occurs to the delegated powers once an agency is terminated, the assumption our argument rests on is that change to specific organisational form is enough to demonstrate the political power to break promises.

Governments are driven to terminate arm's length agencies by a number of factors. One group of factors is political. We consider not just the left-right policy position of the current government, but also the difference in the left-right policy position between the current government and the government which established an agency (the 'enacting government'). We hypothesise that:

H1a. Greater policy distance between enacting government and current government increases the risk to an agency

The basis for this claim is not that these policy positions imply a specific attitude to agencies as a form of government. Rather, the claim is that the enacting

government may have 'stacked the deck' when designing the agency, and as the policy position of governments change we would expect greater temptation to reform the agencies. We also explore the effect of political instability by looking at the effect of changes in government.

Finally, in the period that we study, reputation for credible governance and economic competence became increasingly important politically, and any party that wanted to move leftwards may have wanted extra buttressing for its reputation for stewardship; this desire for credibility, in macroeconomic policy at least, is certainly evident in policy statements by key figures involved in setting New Labour policy (Balls, 1998, p. 129; Clift and Tomlinson, 2007). We therefore expect agency termination risks to be lower under left leaning governments.

H1b. The cumulative number of government changes increases the risk to an agency

H1c. A government which holds a more left wing policy position will be less willing to terminate arm's length agencies.

A government that cares about its reputation for good governance will be reluctant to terminate agencies too readily. The importance we place on reputation in constraining agency change suggests that some types of agency will be more long-lived. In particular, we expect agencies that are delivering regulatory commitment to be more robust than other types of agencies. This expectation is based on the fact that regulatory agencies are designed to make commitments over time to allow actors to make large and relatively fixed investment decisions (in economic plants, training, organisational strategy) with a degree of confidence about future pay-offs. The 'long arm of the future' (North and Weingast, 1989: 807) will be particularly powerful in relation to agencies designed to produce commitment. There is also reason to believe that the robustness of agencies creating regulatory commitment will be stronger in areas related to economic policy. Elgie and McMenamin (2005) demonstrated that French agencies operating in liberalised sectors of the economy receive greater levels of independence than otherwise because of the need to convince international investors that their money is safe. Similarly, a new government taking office may be particularly wary of abolishing economic regulators



because it fears that such action may dampen investment during the remainder of its term in office.

The reputational cost of terminating agencies that provide expertise or that manage probity is unlikely to be so long lasting because they are generally not governing transactions across time. However, easy termination of these agencies may still damage the credibility of the decision-making process or the credibility of the information and analysis produced by these agencies: if expert advisory committees are easily abolished for giving the wrong advice then the advice governments receive is unlikely to be impartial. Similarly, if a grant allocating agency can be easily abolished this may influence its decision making procedures. Our expectations about the fourth, representative, type of agency differ somewhat. We see these as primarily organisations for political clients and as such particularly vulnerable to changes in government and policy position. Thus, we tested the following hypotheses:

- H2a. Agencies producing regulatory commitment will live longer than agencies with other rationales.
- H2b. Representative agencies (the reference category) will be the shortest lived type of agency.

This section has argued that in deciding to abolish arm's length agencies politicians trade adaptability off against policy credibility. Positional and partisan change is likely to affect the risk of termination, as will the rationale for delegation. We have argued that the trade-off between credibility and adaptability is particularly stark in the case of agency termination because of the risk of great reputational damage to a government.

### **3. Arm's Length Agencies in the UK**

In addition to the rationale for an agency, its institutional features may also affect its longevity. The complexity and diversity of the British system of delegated governance precludes attempts to be comprehensive about the agency landscape (Flinders and McConnel, 1999). In our analysis we focus on three constitutional categories of agency, set up to help solve credibility problems: *non departmental*

*public bodies (NDPBs), public companies and non-ministerial departments (NMDs)* (Cabinet Office, 2011). There are some notable agencies excluded from our analysis. First, executive agencies are excluded. These were set up to improve the management of government functions rather than to generate credibility with external interest groups and as such we would expect a different type of politics to be associated with them.<sup>4</sup> We also exclude ‘NHS bodies’ from the analysis. This group of organisations includes for example, Foundation Trusts, which we believe fit more closely with the executive agency category. We also exclude Scottish, Welsh and Northern Irish agencies, the organisation of which was affected by devolution and which for much of our period operated in distinct political systems.

NMDs are government departments, established by legislation, but they are usually headed by a statutory board, or a Director General, rather than their own minister. Each has a sponsoring department through which it is accountable to parliament, although the exact nature of the accountability has recently been a matter of dispute.<sup>5</sup> Many of the economic regulators are NMDs – OFGEM (and its predecessors) OFWAT, the OFT – as are other non-economic regulatory agencies such as the Food Standards Agency and OFSTED. Although, these bodies are governed by a board with independent members they remain part of government and are staffed by civil servants.<sup>6</sup>

An NDPB is “a body which has a role in the process of national government but is not a government department, or part of one, and which accordingly operates to a greater or lesser extent at arm’s length from Ministers” (Cabinet Office, 2011: 10). We used the annual ‘Public Bodies’ publication to construct our dataset. There are three subtypes of NDPB in our data. *Executive NDPBs* have their own legal personality and are usually established under the Companies Act they carry out some combination of administrative, commercial, executive, technical or regulatory functions. Examples include the Competition Commission, the Arts Council England and the Medical Research Council. *Advisory NDPBs* are established to “provide

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<sup>4</sup> Although constitutionally it can be difficult to distinguish them from NMDs.

<sup>5</sup> The dispute arose as a result of a parliamentary investigation of the working of Her Majesty’s Revenue and Customs (a NMD).

<sup>6</sup> We could not find an authoritative and consistent list of NMDs over the period covered by our data. We constructed our dataset on the establishment and termination of NMDs from the annual Civil Service Yearbook and from a list provided to the Treasury Select Committee in 2006.

independent, expert advice to ministers on an ongoing basis” (Cabinet Office, 2011: 12), they rarely have a budget and often have limited staff support. Finally, *tribunal NDPBs* are normally concerned “with the rights and obligations of individuals towards a branch of Government or other public authority.” (2011: 13). They provide courts of appeals for some regulators, for example the Competition Appeals Tribunal acts as an appeal body for Competition Commission decisions. The final type of body in our dataset is the *public company*. These operate commercially and are primarily funded (usually over 50%) by fees from users or other sources. Examples include Channel 4, and the Commonwealth Development Corporation and in the early part of our dataset the nationalised industries. Also included in this group is OFCOM the regulator for telecoms and private broadcasters.

It is difficult in the UK system to establish precise hypotheses about the consequences of constitutional position for agency lifespan: as recent research has suggested, government officials and agency leadership are often unclear about the exact legal position of particular agencies (Gash et al., 2010). However, we would expect the costs of maintaining or abolishing agencies to vary by constitutional type. The Advisory NDPBs and the Tribunal NDPBs are more lightly staffed<sup>7</sup> and, in general, spend less public money than the other types of agency. As a result we expect the administrative costs of termination to be lower, but also for there to be less resistance to the termination of these bodies from the people staffing them. Consequently, we expect the NMDs, Executive NDPBs and Public Companies to be longer lived.

H3. NMDs, executive NDPBs, and public companies are expected to live longer than advisory and tribunal NDPBs.

Finally, agencies vary in terms of policy area as well as function. Our only *a priori* expectation in relation to policy area is that (as discussed above) regulators in economic fields will be the most long lived agencies because they govern the commitments made to international investors, an attentive audience of government

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<sup>7</sup> Unfortunately, complete and consistent data on levels of staffing and expenditure over the period studied do not exist.

actions with the power to punish any reneging on commitments by withholding investment. Whilst we control for the policy area of each agency, we do not have strong expectations about the significance or direction of the associated coefficients.

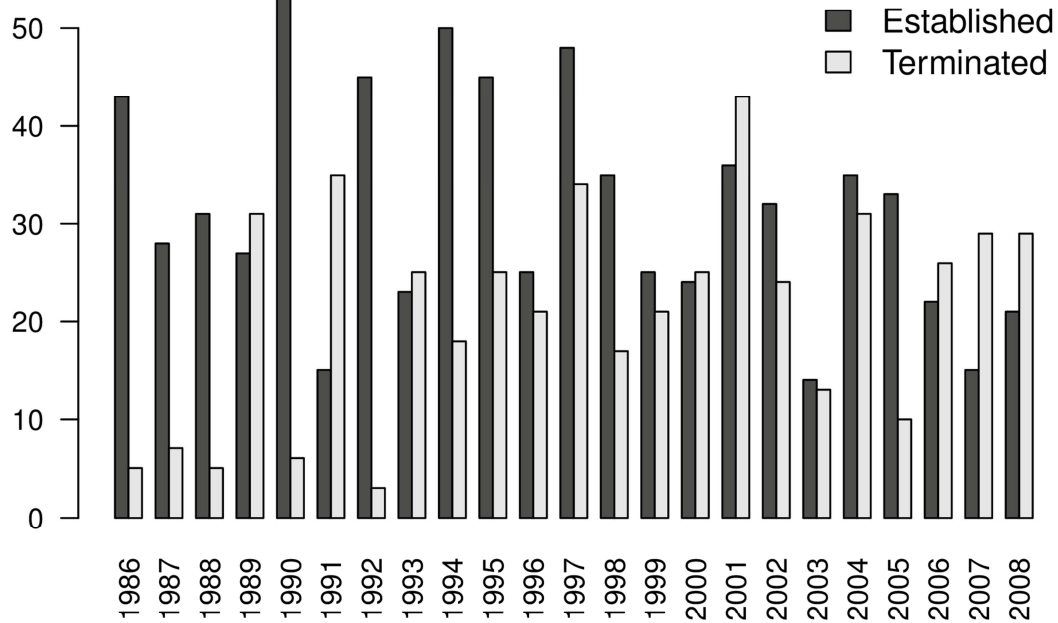
H4a. Agencies with economic functions will be longer-lived than others.

H4b. Economic regulators will be the longest-lived type of agency.

The next section gives a simple overview of the characteristics of the population and provides the details of how we measure our predictor variables. Our modelling strategy is described. Before moving on to the results and discussion, we briefly summarise how our approach compares to efforts to model agency lifespans in other countries.

#### **4. Data and Modelling Approach**

Our dependent variable is whether or not an agency is terminated in a given year, (thus, our unit of analysis is the agency-year). For our purposes, an agency was terminated in a given year if it did not appear in Public Bodies for that year, nor in the subsequent year (for NMDs the source was the Civil Service Yearbook). Cases where an agency did not appear in Public Bodies for a given year, but reappeared in the subsequent year, are treated as scribal errors. Cases where an agency did not appear in Public Bodies for two consecutive years, but which subsequently reappeared under the same or a similar name, are treated as refoundings. The pattern of agency birth and termination is illustrated in Figure 1. Note that the terminations columns refer only to agencies born 1985 or later.



**Figure 1: Agency creation and termination, 1986-2008**

We expect political change to increase the risk of termination (Adam et al., 2007; Lewis, 2002; 2004). We test this using two variables. The first is an annual measure of government policy position based on an automated analysis of annual budget speeches, placing each speech on a left-right scale (Hakhverdian, 2009). We carry the last value forward to 2007, and have rescaled the values to have zero mean and one-half standard deviation (relative to the data in our period). Policy positions to the left of the mean receive a negative score and positions to the right a positive score. We hypothesize that a greater policy distance between a current government and an agency's enacting government will be associated with a greater risk of termination (H1a). A similar predictor is used in the US context by Lewis (2002).

The second variable measures the cumulative number of government changes experienced by each agency. We follow Strom et al. (2010), and define a

government change as involving either an election, a change in prime minister, or a change in the partisan composition of the government. In total there are seven government changes in the period under study: 1987, 1990, 1992, 1997, 2001, 2005 and 2007. We expect termination risk to increase with the number of changes in government (H1b). We also include the current government policy position as a predictor in the model, again using Hakhverdian's (2009) data. Our expectation is that more left-wing governments will be less willing to terminate arm's length agencies (H1c).

As argued in section 2, we expect the rationale for delegation to an agency to influence the agency's lifespan. The agencies in our data were hand coded by the authors, for their dominant rationale.<sup>8</sup> We used the four categories discussed earlier: regulatory commitment; probity; expertise; and, representative. We refer to the dominant rationale because those agencies that produce a regulatory commitment may also be providing probity and expertise. Similarly, agencies providing probity are also very likely to be expert agencies as well. Agencies are categorised by the most encompassing of the rationales, with regulatory commitment being more encompassing than probity which in turn is more encompassing than expertise (H2a). The fourth category of agency, is those that are representative organisations for social groups. We expect representative agencies to be shortest lived and use these as our reference category (H2b).

The institutional type of an agency was coded using four dummy variables with advisory NDPBs as the reference category (H3). To control for variation by policy area, the agencies were dual coded using the UK version of the policy agendas framework (Jennings et al., 2011).<sup>9</sup> We do not have *a priori* expectations related to these variables. However, we do expect that governments will be

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<sup>8</sup> Once coding guidelines for the function had been developed, the agreement rate between two coders was 76%, disagreements were reconciled by investigating the role of the agencies in more detail.

<sup>9</sup> The names of the agencies were used to place them in the major topic policy agenda codes. Using this method there was a 60% agreement rate, but virtually all differences between the two coders were removed by reference to the subtopic codes or correcting typographical errors. The remaining differences were reconciled by the coders, for example it was agreed to place agencies with 'sustainable development' in their title in the Environment rather than the Community Development categories.

particularly concerned with their reputation for economic governance (H4a) and especially economic regulation (H4b). To capture these two expectations we recoded the policy agenda framework so that it more accurately reflected what is meant by ‘economic’ in economic regulation. For instance, in the policy agendas framework energy, water and telecoms regulators would be placed in their separate sectors. These are however better understood as economic regulators.<sup>10</sup> Table 1 sets out the characteristics of the agencies in our dataset.

Finally, we control for the aggregate level of government debt in a given year. It is reasonable to expect that governments will try to cut back agencies in times of fiscal stress (Hood, 1981). However, agency termination can be costly in the short term so the affect may be ambiguous (Adams *et al.* 2007: 230). The effects of debt may also vary across governments: Persson and Svensson (1989) hypothesise that left-wing governments, desirous of future high levels of government spending, are more sensitive to debt.

We model the lifespan of agencies and risks that they face using duration models (Box-Steffensmeier and Jones, 1997; Mills, 2011). This is a technique for modelling the time period from the onset of a risk to the occurrence of some event, in this case the event is agency termination. The advantage of using a duration model is that the technique takes into account the right censoring of some observations. In our dataset we have a record of the years of birth and death of each agency, but of course some of the agencies established post-1985 continue to exist beyond the end of our study period and there is therefore no year of death. We know that these agencies live beyond the period of our study, but we have no way of knowing how much longer they persist. Deleting these agencies from the dataset risks introducing selection bias in the models. Duration models take this right censorship into account.

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<sup>10</sup> BIS, 2011. *Principles for Economic Regulation: Call for evidence*.  
<http://bis.gov.uk/assets/biscore/better-regulation/docs/p/11-519-principles-economic-regulation-call-for-evidence.pdf>

**Table 1: Agency median survival time and frequency**

	Advisory NDPB	Executive NDPB	NMD	Public company	Tribunal
Expert	3.0 (N=203)	5.0 (N=97)	8.0 (N=5)	2.0 (N=7)	
Probity	3.0 (N=20)	8.0 (N=78)	(N=1)	1.0 (N=23)	
Regulation	3.0 (N=26)	6.0 (N=58)	7.5 (N=17)	6.0 (N=5)	7.0 (N=48)
Representative	5.0 (N=160)	8.0 (N=42)			1.0 (N=1)

**Note:** Median survival times are based exclusively on non-censored observations.

Proportional hazard models (of which the Cox model is one example) assume there is a baseline risk of termination faced by each agency, each year; and that factors which have an effect on agency survival have an effect by multiplying that baseline risk by some constant, rather than adding or subtracting to it. Cox models use this proportional hazard assumption to estimate coefficients on factors without specifying the functional form of the baseline risk. This is particularly useful where there is little theory capable of guiding a choice of functional form.<sup>11</sup> One constraint that is placed on all versions of the proportional hazard models is that the effect of a co-variate does not change over time. If, for example, as Boin et al. (2010) find, the features of an organisation that at first protect it from abolition later in its life increase the risk of abolition, then the proportional hazard assumption does not hold. This can be tested for and adjusted in the models and we explain how we do this in the results section.

There may be a delay between government formulating the intention to terminate an agency, and government actually terminating that agency. Higher levels of debt, for example, do not instantaneously translate to agency terminations, but make their effect known over time. We therefore lagged all of our time varying independent variables by one year. We choose a one-year lag after experimenting

<sup>11</sup> Carpenter and Lewis (2004) do link their theory of learning to the shape of the hazard function of US agencies, but our theoretical framework differs from theirs substantially.



with no-lag, and a two-year lag. We opted for a one-year lag because the model fit statistics (AIC and Nagelkerke  $R^2$ ) for the one-year lag were better than the statistics for any other lag structure. Results for these alternative lag structures are available on request.

A number of recent projects have analysed the lifespans of agencies. The work of Lewis (2002; 2003; 2004) used US agencies to explore the influence of institutional design on survival times. Boin et al. (2010) ask similar questions using a different sample, with a particular emphasis on the way that the protective effects of institutional choices change over time. Beyond, the US there has been some recent studies of agency life spans in parliamentary system partly in response to Adam et al.'s (2007) identification of a gap in the literature. Notably a forthcoming special edition of the *International Journal of Public Administration* provides case studies on Norway, (Rolland and Roness, 2012) Ireland (MacCarthaigh, 2012), Lithuania (Nakrošis and Budraitis, 2012), Estonia (Sarapuu, 2012) and Hungary (Hajnal, 2012). The nearest in method and approach to ours is Hajnal's paper on Hungarian agencies, which (paradoxically) finds that formal insulation and autonomy are associated with greater risk of termination. Generally, these studies take a more comprehensive and disaggregated approach than we do, looking at, for example, the different ways in which agencies change and are reformed including what happens to their functions post reform. Our justification for focusing only on termination for the purposes of this paper is set out in section 2.

## 5. Results

The result of the Cox regressions can be found in Table 2, which presents two models. The proportional hazards assumption was tested by examining the Schoenfeld residuals for each independent variable as a function of time, (Grambsch and Therneau, 1994) and found not to be satisfied. To address this problem a number of our independent variables are interacted with time. The model in the left-hand column is the full model, which includes  $n-1$  dummy variables for the  $n=19$  Policy Agenda Topics (coefficients not reported), with Agriculture as the reference category. The model in the right-hand column is our preferred model, which omits these dummy variables. We prefer this model on the basis of the smaller AIC, and because the difference in log-likelihoods is not statistically significant ( $\chi^2=17.783$  on

18 d.f.;  $p = 0.47$ ). All coefficients have the same sign and similar magnitude across the two models; however, the main effect of an arm's length agency having an economic role ceases to be significant at the 0.10 level in the reduced model (it remains significant when interacted with time). The overall fit of the model, as measured using Harrell's concordance measure, is average: at 0.689 for the full model, it is just below the 0.7 rule-of-thumb for use in clinical prognostic models (Hosmer and Lemeshow 2000, 162).<sup>12</sup>

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<sup>12</sup> Harrell *et al.* (1984) explains the concordance measure in the clinical context as follows: "the index  $c$  estimates the probability that, of two randomly chosen patients, the patient with the higher prognostic score will outlive the patient with the lower prognostic score. Values of  $c$  near 0.5 indicate that the prognostic score is no better than a coin-flip in determining which patient will live longer. Values of near 0 or 1 indicate the baseline data virtually always determine which patient has a better prognosis"

**Table 2: Survival models of NDPBs**

	Baseline model	Reduced model
Abs. change in govt. pos'n., L-R scale, one-year lag	−0.113 (0.117)	−0.093 (0.115)
Cumulative changes of government, one-year lag	−0.044 (0.108)	−0.047 (0.107)
Govt. pos'n., L-R scale, one-year lag	0.228 <sup>*</sup> (0.109)	0.251 <sup>**</sup> (0.108)
Type: Executive NDPB/Advisory NDPB	−0.961 <sup>***</sup> (0.206)	−0.931 <sup>***</sup> (0.197)
Type: Non-ministerial department/Advisory NDPB	−0.715 <sup>*</sup> (0.374)	−0.666 <sup>*</sup> (0.365)
Type: Public companies/Advisory NDPB	1.836 <sup>***</sup> (0.313)	1.745 <sup>***</sup> (0.297)
Type: Tribunals/Advisory NDPB	0.109 (0.258)	0.078 (0.248)
Function: Expert/Representative	−0.124 (0.134)	−0.139 (0.119)
Function: Probity/Representative	−0.552 <sup>**</sup> (0.195)	−0.452 <sup>**</sup> (0.174)
Function: Regulation/Representative	−0.397 <sup>*</sup> (0.216)	−0.435 <sup>*</sup> (0.203)
NDPB has economic role	−0.295 <sup>†</sup> (0.202)	−0.195 (0.178)
Debt as percentage of GDP, one-year lag	−0.509 <sup>*</sup> (0.252)	−0.497 <sup>*</sup> (0.246)
NDPB has economic role * Regulation	−0.837 <sup>**</sup> (0.318)	−0.815 <sup>**</sup> (0.312)
Govt L-R pos. * Debt, one-year lag	−0.483 <sup>**</sup> (0.198)	−0.493 <sup>**</sup> (0.197)
Executive NDPB * time	0.073 <sup>**</sup> (0.024)	0.069 <sup>**</sup> (0.024)
Public company * time	−0.150 <sup>***</sup> (0.047)	−0.151 <sup>***</sup> (0.047)
NDPB has economic role * time	0.104 <sup>***</sup> (0.024)	0.102 <sup>***</sup> (0.024)
lagged Debt * time	0.255 <sup>**</sup> (0.094)	0.259 <sup>**</sup> (0.092)
lagged Debt * time <sup>2</sup>	−0.024 <sup>***</sup> (0.007)	−0.025 <sup>***</sup> (0.007)
Log-likelihood	−2772.854	−2781.746

AIC	5619.709	5601.491
BIC	5868.798	5729.402
Concordance	0.689	0.675
Pseudo $R^2$	0.032	0.030
N (agency-years)	6199	6199
N (agencies)	790	790
N (termination events)	486	486

**Note:** Full model includes policy area dummies which are not reported here. Standard errors are given in parentheses. Continuous variables have been standardized to have mean zero and unit standard deviation. Significant coefficients are starred: † = 0.1 level of significance; \* = 0.05; \*\* = 0.01; \*\*\* = 0.001.

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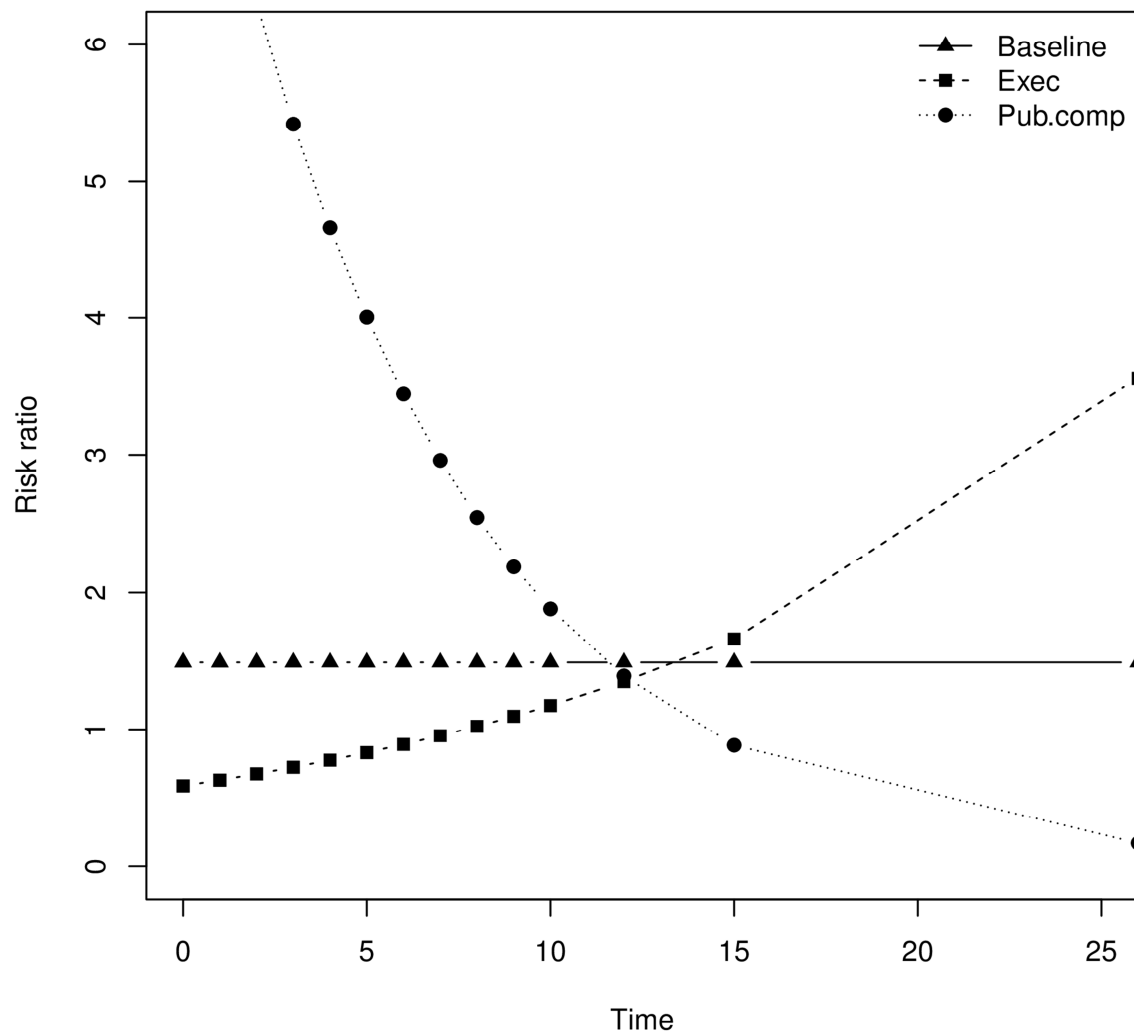
We begin by discussing the effects of the political variables. We hypothesised that the greater is the policy distance between the enacting government and the current government, the greater the hazard rate. Yet the value of the coefficient on absolute change in government position is statistically insignificant, and has the wrong sign. The same is true of the coefficient for the cumulative number of government changes, which we expected to be positive and significant. It too is negative and is not significant at the 0.05 level. Of our three political variables, only the left-right position of the current government has a statistically significant effect. A rightward shift in the government's position of one standard deviation (10.3 units on the original scale) increases the hazard rate for agencies by  $\exp(.251) - 1 = 28\%$ .

We next turn to the variables concerning the rationale and form of the arm's length agency. We hypothesised that agencies discharging a regulatory commitment would face lower risk of termination than all other agencies. Although regulatory and probity agencies face lower risk of termination than the baseline category of representative agencies, the risk of termination faced by probity agencies is slightly lower than for regulatory agencies.<sup>13</sup> Whilst expert agencies face a lower risk than the baseline category, this difference is not statistically significant. Thus, whilst we can confirm that the two categories of probity and regulatory agencies face a lower risk of termination than representative agencies, we cannot draw any stronger

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<sup>13</sup> Note, however, that the model includes an interaction term that separates out economic regulators.

conclusions about the ordering of these two functions or about the role of expertise agencies.

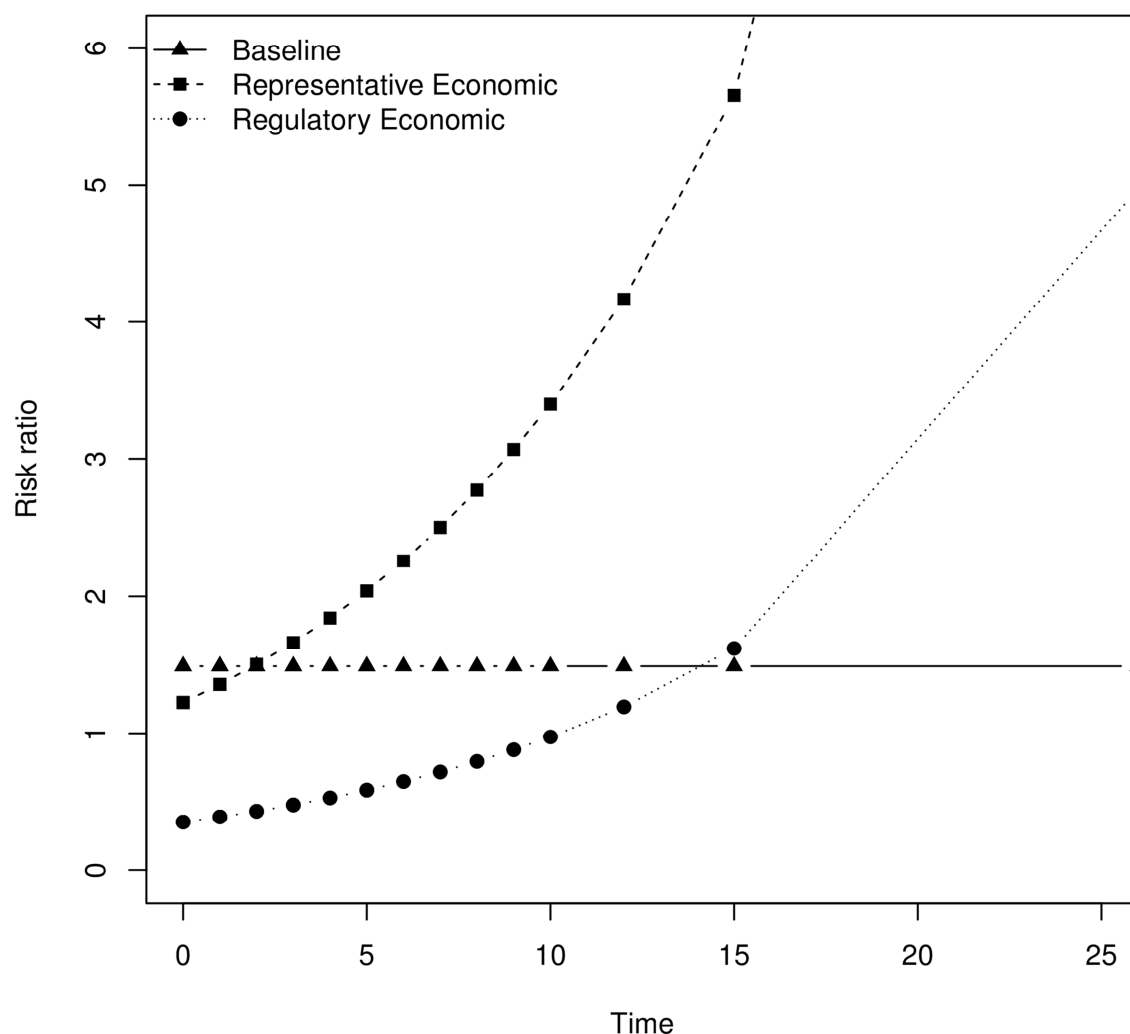


**Figure 2: Interaction effects**

As far as agency form is concerned, we hypothesised that advisory NDPBs would face a higher risk of termination than all other agencies, and in particular a higher risk of termination than executive NDPBs and non-ministerial departments. Interpreting the effects of agency form is more difficult, because two agency forms (executive NDPBs and public companies) were entered into interactions with time in

order to satisfy the proportional hazards assumption. That is, the increase (decrease) in the risk of termination of an executive NDPB or public companies depends on how old the NDPB or public company is. Accordingly, in Figure 2, we plot the hazard ratio for these two agency types against the baseline category (advisory NDPBs) as a function of time. In order to indicate the density of agency ages, points are plotted at each fifth percentile of age. The dashed line for executive NDPBs is lower than the solid baseline hazard rate at all points below the twelfth year. This suggests that our hypothesis concerning the lowest hazard rate of executive NDPBs compared to advisory NDPBs is correct for most values of agency age. The greater hazard rate of executive NDPBs after the twelfth year may be interpreted either as a shift in the hazard rate of executive NDPBs or a shift in the hazard rate of the baseline. That is, this finding might suggest that advisory NDPBs which last longer than a certain time have ‘earned their stripes’, and face a lower risk of termination.

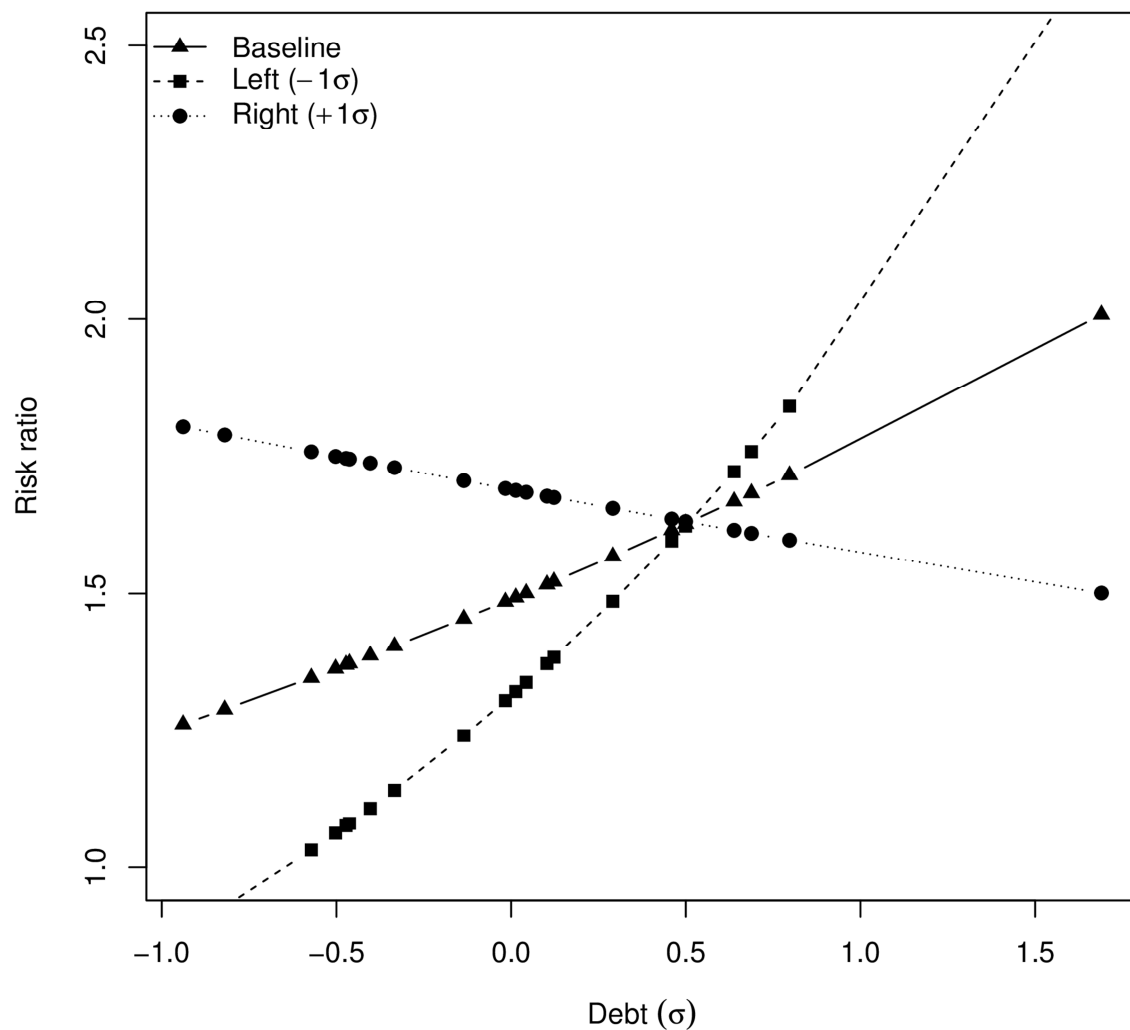
We are not similarly equanimous concerning the interaction between time and public companies. The hazard ratio for public companies in their first to fifth years (compared to advisory NDPBs) is extremely large indeed. Only in the twelfth year does it fall past advisory NDPBs. Whilst this picture is similar in reverse to that discussed in the case of executive NDPBs, we believe that there is a genuinely higher risk for public companies in their first few years. Many of these public companies featured in Public Bodies for a few years prior to their privatization and subsequent exit. That is, many bodies in this category are destined for privatization and thus have a significant extra termination risk in the first few years.



**Figure 3: Interaction effects 2**

Our last hypothesis related to agency characteristics concerned whether or not the agency had an economic role. Here, we must distinguish between agencies with an economic role, but no regulatory function, and agencies with both (in the model these latter agencies are captured by the interaction term 'economic role\*regulator'). Figure 2 shows that agencies with no regulatory function has a hazard function which quickly exceeds that of the reference category (an advisory NDPB with a representative function and no economic competence) after the first

few years. Although the hazard rate for agencies with a regulatory function is also increasing, this only exceeds the reference category at fifteen years. In general, therefore, market regulators are longer-lasting.



**Figure 4: Debt effects**

Our final group of hypotheses is economic in nature. Specifically, we hypothesised that the greater the levels of government debt, the higher the hazard rate and that this effect would be more pronounced for left-wing governments. The picture here is somewhat complicated by the fact that debt enters into interaction terms with time and time-squared. Consequently, Figure 3 plots the effect of debt at



5 years, the median agency age in our data. As before, points are plotted at each fifth percentile of (standardized) government debt. The solid line shows the effects of debt on the hazard rate for a government with a left-right position at the mean for the whole period. The dashed and dotted lines respectively show the effects of debt on the hazard rate for left-wing (-1 SD) and right-wing governments (+1 SD) respectively. The increase in the hazard rate as a function of debt is much higher for left-wing governments; this effect means that left-wing governments outstrip temperamentally termination-prone right-wing governments in their willingness to terminate agencies at levels of indebtedness greater than +0.5 standard deviations.

The substantive import of our results can perhaps be made clearer by discussing two specific cases, which were respectively in the top and bottom quartiles for averaged predicted hazard rate over their lifespan. The Eastern Electricity Board plc. was the successor to the long-lived Eastern Electricity Board. One of the regional electricity companies created by the Electricity Act 1989, it survived as a public company for one year before its privatization as Eastern Group, the remains of which are now owned by E.On and EDF. The high predicted hazard rate of this body is due not only to its status as an agency with an economic role and a public company, but also to the period: according to our annual left-right positions, the Thatcher government between 1988 and 1989 (which enters into our model as a lagged predictor for 1990 and 1991) was at its most right-wing (with the exception of a brief peak before in 1987).

Ironically, the agency with one of the lowest predicted hazard rates is an agency which has, by our measure, been terminated. Oftel, or the Office of Telecommunications, was set up under the Telecommunications Act of 1984; in 2003 it merged with the Broadcasting Standards Commission, the Independent Television Commission, the Radio Authority, and the Radio communications Agency to create the Office of Communications (Ofcom). The long predicted life of Oftel results principally from its status as an economic regulator. Whilst it is not the longest-lived of the agencies in our data, its termination after 19 years is perhaps understandable given that this particular 'termination' involved the continuation of much of the organisation under a different name. That is, it did not result in a termination of function.

## 6. Conclusions

We began this article by recapitulating some of the rationales for delegation to arm's length agencies in terms of commitment, probity, and expertise. We noted that these advantages might not be realised if delegation to such agencies can be easily revoked. We therefore set out a number of hypotheses linking the act of revoking such delegation - in our study terminating the agency - to the rationales for delegation, and the political and economic conditions at the time. Data from the Cabinet Office publication *Public Bodies*, supplemented by the *Civil Service Yearbook*, allowed us to test these hypotheses for a large number of agencies over a twenty-three year period. We found that both the function and the form of the agency affect its likelihood of survival; and that of the political factors influencing termination, the left-right position of the current government has an effect, but not the difference between the left-right position of the current government and the government which set up the agency.

Our findings counter a concern which has been repeatedly expressed by those who study delegation under separation-of-powers systems; namely, that the lack of separation of powers in parliamentary systems will mean that delegation to arm's length agencies, being too easily revoked, is superfluous, and thus is unlikely to deliver credibility for commitment, probity, or expertise. This general claim also holds in the specific and important case where there is a change in the policy position of the governing majority. Here, we do observe year-to-year changes in the policy position of the governing majority; but there is no statistically significant risk of termination associated with such changes. At the very least, we may conclude that it is at least possible for delegation in parliamentary systems to be enduring, even given changes of government. To have demonstrated this possibility in the British context is particularly revealing given that Britain typically lacks coalition government, and thus typically has only one (partisan) veto-player at a time, lacking the multiple partisan veto players which have sometimes been treated as functional equivalents of the multiple institutional veto players found under separation of powers systems. The lack of these features does not, however, ensure that policy reversal is costless or easy, and we speculated that governments' concerns for their reputation would make them think twice about agency termination, and in particular about termination of economic regulators.

It is also important to note that we have demonstrated this possibility without, at the same time, finding that agency termination is completely unresponsive to the politics of the day. The position of the government of the day on the left-right dimension clearly affects the risk of agency termination. Whatever else might be responsible for relative endurance of delegation across contrasting governments, it is not due to a complete disconnect between party politics and arm's length administration.

It is dangerous to extrapolate beyond our data. The structures of the British regulator state and other areas of delegated governance were built in a political environment that may no longer exist. That environment was characterised by long periods of single party majority with few 'close' elections. It seems unlikely that these features will obtain in the future. The consequences for agency life spans is unclear. On the one hand, if periods in government for parties become shorter the reputational concerns of incumbents will become less powerful, however there may also be less time to enjoy the political benefits of termination and reform. The dataset analysed here will prove invaluable for researching the effects of these macro political changes on future delegated governance in the UK.

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