

Out of the ashes

Priorities for reforming arm's-length government in the UK

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Executive summary

Arm's-length bodies (ALBs) form a fundamental part of the UK public sector. These bodies (often referred to as 'quangos') employ large numbers of public servants and perform a range of vital tasks, from regulating business, to protecting consumers, to providing operational delivery services for government. ALBs provide government with access to external expertise and advice; allow operational freedom to bodies with specific delivery priorities; and can build public trust by removing political influence from certain decisions. They range in size from small advisory bodies which employ less than five people, to vast organisations such as Public Health England and Her Majesty's Courts and Tribunals Service. ALBs are responsible for handling some of the government's largest expenditures on health, education and justice as well as providing frontline public services.

However, the landscape of ALBs has been plagued by some persistent problems. During the course of this parliament, ALBs were at the centre of several high-profile rows. The decision not to reappoint Baroness Sally Morgan as the Chair of Ofsted sparked concerns about ministerial involvement in the appointment and sacking of the chairs and chief executives of ALBs. When the Somerset Levels flooded in early 2014, the search for a scapegoat resulted in a lengthy game of pass the parcel between ministers, the Environment Agency and Defra. These examples highlight the key problems with the UK's arm's-length government. There are at least 11 different types of ALB in this cluttered landscape.¹ This leads to confusion about roles and responsibilities between organisations. The relationships between departments and the ALBs that they sponsor vary considerably in quality, with some departments exercising benign neglect while others choose to micro-manage. Public mistrust of quangos is fuelled by fears that the bodies are unaccountable black holes of public money, run by the beneficiaries of a closed system of political patronage. The Institute first flagged these issues ahead of the 2010 election.²

When the Coalition came to power, it outlined a series of measures to reform ALBs, popularly characterised as another 'bonfire of the quangos'. As the 2015 election approaches this report considers the progress that has been made in reforming arm's-length government. There have been some positive steps: for example a new system for reviewing NDPBs has been introduced. However, the fundamental problems that we identified in 2010 have not been resolved. We make four recommendations which the next government, whatever its composition, should act on to truly reform the UK's arm's-length government:

1. The Cabinet Office should refine and expand the triennial review process which reviews whether arm's-length bodies are fit for purpose and the justification for them to remain at arm's-length.
2. The Cabinet Office must use its ongoing review of classification to create a new, simpler taxonomy for arm's-length bodies, such as the one proposed by the Institute and endorsed by PASC. The new approach must be endorsed by the next government within six months of its formation and fully implemented within the next parliament.
3. The Cabinet Office and the sponsorship champion should continue to collaboratively promote the spread of best practice, focusing particularly on strengthening sponsorship capability across Whitehall.
4. Relevant select committees should be granted an effective veto power over appointments to public bodies which operate as 'independent public interest bodies' (this includes independent watchdogs, regulatory regime setters and guarantors of standards).³ These committees should also have the power to veto dismissals from the same posts.

¹ Gash, T., Rutter, J., Magee, I., Smith, N., *Read Before Burning: Arm's-length government for a new administration*, Institute for Government, 2010. www.instituteforgovernment.org.uk/sites/default/files/publications/Read%20before%20burning.pdf

² *Ibid.*

³ *Ibid.*, p.57

Introduction

In the run-up to the 2010 election, the main political parties all committed to reform government's complex array of arm's-length bodies (ALBs). They argued that, if elected, they would reduce the number and the costs of these organisations, stating that it would be a relatively low risk way of reducing the deficit and increasing government efficiency. They also pledged to improve the transparency and accountability of these little understood organisations, which includes household names such as the BBC and the Food Standards Agency and less visible organisations such as the Nuclear Decommissioning Authority and the House of Lords Appointments Commission.

The precise rhetoric of the parties and individual politicians varied. Several speeches suggested that 2010 would see a traditional cull of quangos which would lead to significant reduction in their number. Other speeches suggested a more nuanced approach was needed. As David Cameron declared in a speech in 2009:

We do need to reduce the number of quangos in this country. But we've got to do it in a way that is responsible, and which recognises that there are circumstances where quangos have a useful and important part to play. So it would be far too simplistic for me to stand here and announce some kind of 'bonfire of the quangos'. People have heard that kind of talk many times before, and seen little to show for it.⁴

The Institute's 2010 publication *Read Before Burning: Arm's-length government for a new administration* agreed that 'not all was right with arm's-length government' and supported parties' calls for reform. However, while recognising that some ALBs had outlived their purposes, it strongly opposed a simplistic cull, warning that simply bringing ALBs back into departments or merging them to reduce numbers would rarely lead to major savings and could distract from effective delivery. It pointed out that such a cull would not resolve longstanding issues that were undermining ALB effectiveness, including:⁵

- insufficient clarity about the roles and responsibilities of many ALBs, which had led to significant duplication of activity, neglect of important issues and problems of policy co-ordination
- the absence of a strategic and proportionate approach to managing ALBs, with too many ALBs being either stifled by micro-managed or subject to 'institutional neglect' that left them insufficiently accountable for their performance
- a complex and confusing landscape with little consistency over why certain bodies had a particular status and others did not – which had contributed to suspicions amongst politicians and the public that the landscape was 'out of control'.

To address the problems facing arm's-length government in England, *Read Before Burning* put forward 10 recommendations, addressing five key areas of focus: clarifying roles and responsibilities; maintaining institutional performance; developing skills in ALBs and sponsor teams; building public confidence; and setting arm's-length government on a stable long-term footing.

Soon after taking office, the Coalition confirmed plans to reform arm's-length government and the Minister for the Cabinet Office, Francis Maude, was placed in charge of delivering the public bodies reform programme. The final programme included a substantial reduction in the number of ALBs predominantly through a programme of mergers, function transfers and reclassifications. But there was also acknowledgement of the need for wider reform and the cull was followed by a series of efforts designed to ensure that the public bodies that remained were made more accountable, efficient and well-run. This briefing paper provides a concise overview of what has happened since the reform programme was announced. We look at how far the programme and wider developments in government relevant to ALBs have addressed some of the issues raised in our report, *Read Before Burning*, and we provide our updated assessment of the main steps that are still required to improve the effectiveness of arm's-length government in the UK.

⁴ Hill, J., *Cameron calls for quango reform*, The Wharf, 7 July 2009, retrieved 27 February 2015, www.wharf.co.uk/2009/07/cameron-calls-for-quango-reform.html

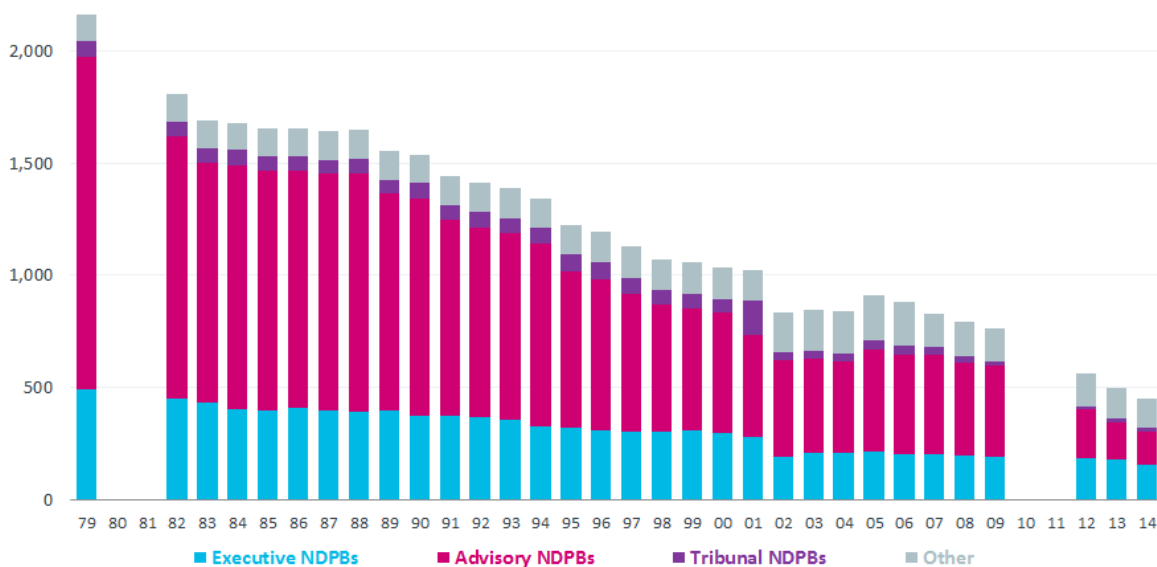
⁵ Gash, T., Rutter, J., Magee, I., Smith, N., *Read Before Burning: Arm's-length government for a new administration*, Institute for Government, 2010, www.instituteforgovernment.org.uk/sites/default/files/publications/Read%20before%20burning.pdf

Changes to date

1. The size of the landscape

Since 2010, the number of ALBs has been substantially reduced. As of November 2014, the Cabinet Office reported that over 95% of planned changes have been completed.⁶ By the end of the reform programme, there will be 598 ALBs, 306 fewer than in 2010.⁷ It should be noted that the majority of ALBs that have been abolished to date are small advisory NDPBs, many of which have simply been reclassified. The rest of the reduction in numbers was achieved mainly by merging existing bodies and by taking functions previously delivered in arm's-length bodies back into departmental structures. It is important to note that the traffic has not been entirely one way. New executive NDPBs such as the Office of Budget Responsibility have been set up and the NHS has been reconstituted as NHS England, an enormous executive NDPB. Two new non-ministerial departments (NMDs) the National Crime Agency and the Competition and Markets Authority superseded existing bodies that had either been abolished or merged.

Figure 1: Number of non-departmental public bodies, 1979 to 2014



Source: Institute for Government analysis of Cabinet Office *Public Bodies* reports, summary tables, 1979 to 2014. No reports were published in 1980, 1981, 2010 or 2011.

2. Extended legislative powers

The reform program was given statutory backing via the Public Bodies Act 2011. The act granted ministers the authority to reform, merge and abolish certain public bodies, many of which had been created via parliamentary statute, through a ministerial order. Parliament was also given the power to consider these ministerial orders.⁸

A highly controversial aspect of the Public Bodies Act was dropped before the bill was passed. 'Schedule 7', as it was known, would have allowed ministers discretionary power to move ALBs whose fate had not yet been determined from an 'undecided' category into one of three other categories: retain, abolish or merge. Aside from the constitutional implications, it was felt that the independence of ALBs could be seriously compromised by the prospect of ministerial interference in their future existence without parliamentary input. As the Institute put it at the

⁶ Cabinet Office, *Public Bodies 2014*, 10 November 2014, retrieved 27 February 2015, www.gov.uk/government/uploads/system/uploads/attachment_data/file/387312/Annex_A_-_PB14_Report_121214.pdf

⁷ Page 4, National Audit Office, *Progress on Public Bodies Reform*, 7 February 2014, retrieved 27 February 2015, www.nao.org.uk/wp-content/uploads/2014/02/Progress-on-public-bodies-reform.pdf

⁸ Chapter 24, *Public Bodies Act 2011*, House of Commons 14 December 2011, retrieved 29 July 2014 www.legislation.gov.uk/ukpga/2011/24/pdfs/ukpga_20110024_en.pdf

time: 'The danger for ministers is that the simple existence of these powers will undermine the very rationale for the existence of many of these bodies in the first place.'⁹

3. The introduction of triennial reviews

In April 2011 the Cabinet Office launched a vehicle intended to reform the bodies which remained after the initial cull. The triennial review programme required that departments review all their executive NDPBs every three years with two aims: to ascertain whether the body should continue to operate at arm's length, applying the government's 'three-tests';¹⁰ and to evaluate the body's governance arrangements to ensure compliance with good corporate governance. As with many aspects of the reform programme, the triennial review programme does not cover the entire landscape. Certain types of body are exempt from the reviews, most notably non-ministerial departments and public corporations.

By the time of the publication of the National Audit Office's *Progress on Public Bodies Reform* report in February 2014, 30 of 77 triennial reviews of NDPBs had been completed, with another 34 in progress. An additional 32 reviews were in the planning phase although they had not yet been announced.¹¹ In July 2014 the Cabinet Office announced the names of the bodies due to be reviewed between April 2014 and March 2015.¹²

4. An enhanced role for sponsors

Each Whitehall department has 'sponsorship' teams who manage the relationships between the department and its ALBs. The reform programme placed a strong emphasis on improving the quality of sponsorship across Whitehall and the resources available to those in sponsorship roles. The Cabinet Office has released an updated set of guidelines on effective sponsorship and appointed Catherine Lee, a Director-General in the Ministry of Justice, as sponsorship champion, charged with raising the profile of sponsorship as a specialism and promoting the spread of best practice across departments. Civil Service Learning also now offers a sponsorship course to help sponsors develop the skills and knowledge necessary for the role.

The Cabinet Office has also engaged groups such as the Public Chairs Forum and the Association of Chief Executives to help pinpoint key stumbling blocks in sponsorship relationships. There are plans to further raise the profile of sponsorship as a specialism which the Cabinet Office has outlined in its 2014-17 strategy document.¹³

5. Transparency

In 2012 the Cabinet Office recommenced the publication of an annual account of all public bodies, providing details on their purpose, expenditure, and leadership.¹⁴

The Cabinet Office has also urged public bodies to adopt a variety of transparency measures themselves including: publishing an annual report; holding board meetings open to the public; and publishing the minutes of board meetings. Uptake of these recommendations has been varied. In 2014, the NAO reported that only 14% of ALBs complied with all three of the Cabinet Office's transparency requirements and 24% had complied with none.¹⁵

⁹ Adonis, A., *Henry VII or Henry II? Ministers need to rethink powers in the Public Bodies Bill*, Institute for Government, 8 November 2010, retrieved 27 February 2015, www.instituteforgovernment.org.uk/blog/1009/henry-viii-or-henry-ii-ministers-need-to-rethink-powers-in-the-public-bodies-bill

¹⁰ The three tests are: 1) does it perform a technical function; 2) does it require political impartiality; 3) does it need to act independently to establish facts?

¹¹ Page 4, National Audit Office, *Progress on Public Bodies Reform*, 7 February 2014, retrieved 27 February 2015, www.nao.org.uk/wp-content/uploads/2014/02/Progress-on-public-bodies-reform.pdf

¹² Cabinet Office, *Triennial Review Programme 2014-15*, 18 July 2014, retrieved 27 February 2015, www.gov.uk/government/uploads/system/uploads/attachment_data/file/384269/TR_programme_2014-15_081214.pdf

¹³ Cabinet Office, *Public Bodies Reform Strategy Document*, 18 July 2014, retrieved 27 February 2015, www.gov.uk/government/uploads/system/uploads/attachment_data/file/331860/Public_bodies_reform_strategy.pdf

¹⁴ Cabinet Office, *Public Bodies Reports*, www.gov.uk/government/collections/public-bodies

¹⁵ National Audit Office, *Progress on Public Bodies Reform*, 7 February 2014, retrieved 27 February 2015, www.nao.org.uk/wp-content/uploads/2014/02/Progress-on-public-bodies-reform.pdf

The Cabinet Office has recognised that there is work yet to be done to improve transparency of arm's-length government. In July 2014, the then-Minister for Civil Society Nick Hurd acknowledged, 'after just three and a half years we are just not where we need to be in terms of changing the culture around transparency but the triennial reviews are an opportunity to push harder, which we will do'.¹⁶

The changes listed above are the result of measures that specifically targeted at ALBs; however ALBs have also been collaterally impacted by changes elsewhere in government.

6. The Clear Line of Sight (Alignment) Project

The Clear Line of Sight (Alignment) Project, first floated in 2007 and then implemented in 2011, is designed to improve transparency in public spending and extends to ALBs as well as their sponsoring departments. The project standardised and streamlined the arrangements for approving and reporting government expenditure.¹⁷

The significance for the ALB landscape is that NDPBs' income and expenditure is now consolidated into the Estimates and Resource Accounts of their parent departments where previously they were not. Sponsorship teams within departments report that this has made departments feel more directly accountable for the actions of these bodies.

7. Central controls

In 2010, the Cabinet Office announced a new system of controls for expenditure across all government departments on: consulting, ICT, recruitment, marketing, and property. The controls sought to achieve three objectives: to reduce unnecessary expenditure, deliver value for money, and to help ensure the delivery of other government reforms such as the government's digital strategy.¹⁸ Although these measures applied across government and were not specifically aimed at ALBs, many felt they represented a new layer of control which many bodies had not experienced before.

The Cabinet Office reports that the controls have led to large efficiency savings across government as a whole.¹⁹ Staff in ALBs have sometimes argued, however, that these rigid controls have delayed or prohibited some potentially cost-saving innovations.

There have clearly been substantial changes across the ALB landscape. But what impact have the changes had? And have they addressed issues relating to performance and public confidence in ALBs? We assess this in the next section, taking stock of whether our previous recommendations for reform have been taken up and identify what further improvements are required.

¹⁶ Public Administration Select Committee, *Oral Evidence: Accountability of quangos and public bodies*, House of Commons, 14 July 2014, retrieved 27 February 2015, <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/public-administration-committee/accountability-of-quangos-and-public-bodies/oral/11477.html>

¹⁷ Honeysett, L., Webb, D., *The clear line of sight (alignment) project*, House of Commons Library, 1 July 2010, retrieved 27 February 2015, www.parliament.uk/briefing-papers/SN05617.pdf

¹⁸ Cabinet Office Controls Guidance, 19 February 2015, retrieved 27 February 2015, www.gov.uk/government/publications/cabinet-office-controls/cabinet-office-controls-guidance-version-40

¹⁹ Cabinet Office, *Government unveils £14.3 billion of savings for 2013 to 2014*, 10 June 2014, retrieved 27 February 2015, www.gov.uk/government/news/government-unveils-143-billion-of-savings-for-2013-to-2014

Progress on *Read Before Burning's* recommendations

In the following section, we ask whether the changes detailed above have addressed the problems highlighted in the Institute's 2010 publication, *Read Before Burning*, which made a number of recommendations for reform. We look at each of the recommendations in turn. First, we explain the **rationale** for each recommendation. Then, we assess **progress** – whether the recommendation has been accepted and/or implemented – and how far wider changes have helped to address the problems identified. Finally, we highlight **outstanding issues** that require further action.

The first two recommendations are aimed at ensuring that ALBs are **set up on a more stable footing, with greater clarity of organisational role, responsibilities and freedoms.**

Recommendation 1. Parliament should ensure that no new ALB can be established without a written business case, which must be approved by the Cabinet Office and subjected to scrutiny by the relevant select committee and by the Public Administration Select Committee (PASC). PASC should have a specific horizon-scanning remit to ensure that the form an ALB takes follows from the function it performs. Given the costs and disruption involved, these committees should also scrutinise business cases for any proposed reorganisations of existing bodies, and no reorganisation should be permitted without a clear business case.

Rationale

Without stricter guidance and oversight of the creation of new arm's-length bodies, new organisations may gradually emerge to replace those which have been abolished or merged. If new ALBs are set up without clarity of purpose and role, the risk of underperformance increases as does the possibility of further restructuring in the future. It is important that restructuring is not entered into lightly as this rarely yields the expected benefits and frequently results in dips in performance.

Progress

In *Read Before Burning*, the Institute argued that Parliament should play a larger role in arm's-length government. There has been some important progress in this area. Under the Public Bodies Act 2011, ministers have the power to draft orders abolishing, merging or modifying the constitutional or funding arrangements for certain public bodies.²⁰ These orders are scrutinised by Parliament. The Act also introduced an enhanced affirmative procedure, further empowering Parliament in respect of these orders.²¹

Leading members of the Coalition initially voiced support for expanding Parliament's role in arm's-length government. While giving evidence to the Public Administration Select Committee (PASC) in July 2010, the Minister for Cabinet Office agreed, in principle, that the Committee should have a role in approving new and reorganised ALBs. The Committee credited the Institute for Government for proposing the idea.²² However, the Cabinet Office's clearance process for new bodies does not include a role for PASC.²³

The Government has also issued guidance intending to make it more difficult to establish a specific type of ALB, the non-ministerial department (NMD). The Cabinet Office and the Treasury must now be consulted on the creation of new non-ministerial departments. According to the Cabinet Office's official guidance, 'an exceptionally strong business case' would be required to approve such proposals.²⁴ This reflects a welcome recognition of the

²⁰ Sections 1-6, Chapter 24, *Public Bodies Act 2011*, House of Commons 14 December 2011, retrieved 29 July 2014 www.legislation.gov.uk/ukpga/2011/24/pdfs/ukpga_20110024_en.pdf

²¹ Section 11 Chapter 24, *Public Bodies Act 2011*, House of Commons 14 December 2011, retrieved 29 July 2014 www.legislation.gov.uk/ukpga/2011/24/pdfs/ukpga_20110024_en.pdf

²² Public Administration Select Committee. *MPs to get new role in approving new quangos*, 28 July 2010. retrieved 27 May 2014, www.parliament.uk/business/committees/committees-a-z/commons-select/public-administration-select-committee/news/quangos/

²³ Public Administration Select Committee, *Accountability of quangos and public bodies: written evidence* 14 October 2014, retrieved 27 February 2015, <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/public-administration-committee/accountability-of-quangos-and-public-bodies/written/12423.html>

²⁴ Cabinet Office, *Categories of Public Bodies: A Guide for Departments*. December 2012, retrieved 27 February 2015 from www.gov.uk/government/uploads/system/uploads/attachment_data/file/80075/Categories_of_public_bodies_Dec12.pdf

Institute's view that non-ministerial departments have particularly opaque and confusing governance arrangements that do little to help accountability. Although the minister of a sponsoring department is technically accountable for an NMD before Parliament, NMDs have no uniform accountability to that minister and receive a budget separate from their sponsoring department.²⁵ So NMDs are not nearly as non-ministerial as the name suggests.

Fiscal accountability is another area where parliamentary oversight appears to have improved, at least for some types of ALBs. As noted above, Non Departmental Public Bodies' income and expenditure have been consolidated into the Estimates and Resource Accounts of their parent departments via the Clear Line of Sight (Alignment) Project.²⁶ In addition, recent guidance for conducting triennial reviews states that 'Parliament must be informed about the commencement and conclusion of reviews' and that departmental select committee must be given the opportunity to input.²⁷

Outstanding issues

Despite the steps taken to increase Parliament's role in arm's-length government, it is not clear that parliamentary scrutiny of ALBs has substantially improved. Although there has been some interest in the state of the overall landscape and the progress of reform – both the Public Administration and the Public Accounts Committees have conducted inquiries on the subject – Parliament still has a relatively limited role in the oversight of new bodies and appears to have little input on large structural changes to ALBs. For example, the National Crime Agency's (NCA) status as a non-ministerial department was simply announced to Parliament via a written question in 2011.²⁸ While the Minister of the Cabinet Office may have agreed that the Public Affairs Select Committee *should* play a role in approving new ALBs, it is still unclear how far the sentiment is matched by action. Scrutiny still comes primarily from departmental select committees, for example, and there is no evidence that PASC has been invited to scrutinise the formation of new ALBs, or major restructurings.

While the Treasury and Cabinet Office in theory oppose the creation of new non-ministerial departments, the NCA is one of two high-profile non-ministerial departments to have been created under this Government. The second, the Competition and Markets Authority, was established in April 2014 and assumed responsibilities from the Competition Commission and the Office of Fair Trading. This suggests that the capacity of the centre of government to ensure a more strategic and coherent approach to the set-up and ongoing governance of ALBs may have limits – which is perhaps unsurprising given wider questions about the strength of Whitehall's corporate centre.²⁹

Recommendation 2. Government should ensure that legislation for new ALBs includes 'sunset' clauses, defining the expected time when the new body should undergo a Governance and Performance Review and/or be disbanded.

²⁵ Rutter, J., *The Strange Case of Non-Ministerial Departments*, Institute for Government, 2014, www.instituteforgovernment.org.uk/publications/strange-case-non-ministerial-departments

²⁶ Honeysett, L., Webb, D., *The Clear Line of sight (alignment) project* House of Commons Library, 1 July 2010, retrieved 27 February 2015, www.parliament.uk/briefing-papers/SN05617.pdf

²⁷ Cabinet Office, *Triennial Reviews: Guidance on reviews of non-departmental public bodies*, 9 December 2014, retrieved 27 February 2015 www.gov.uk/government/uploads/system/uploads/attachment_data/file/332147/Triennial_Reviews_Guidance.pdf

²⁸ House of Commons Written Statements, 2 September 2013, retrieved 27 February 2015, www.publications.parliament.uk/pa/cm201314/cmhansrd/cm130902/wmstext/130902m0001.htm#13090225000016.The

²⁹ Parker, S., Paun, A., McClory, J., Blatchford, K., *Shaping Up: A Whitehall for the Future* Institute for Government, 2010, www.instituteforgovernment.org.uk/sites/default/files/publications/Shaping%20up.pdf

Rationale

Even where there is a good business case to set up a new public body, it should not be assumed that the body's function will be required in perpetuity. The system of establishing of new bodies must build in mechanisms to review the performance of the new body and its continued necessity.

Progress

Many governments have embarked on culls of public bodies, only to create new ones as new policies are announced. Some of these outlive their purpose, undermining government's cost-effectiveness and contributing to confusion over the responsibilities of different areas of government. In this respect, sunset clauses can act as a safeguard against the proliferation of unnecessary bodies. Sunset clauses were not implemented in this Parliament.³⁰ Nevertheless, the triennial review process performs some of the functions that sunset clauses might.

Triennial reviews are a core part of the Government's approach to public bodies. In April 2011, the Cabinet Office announced that all non-departmental public bodies would be subject to a substantive review at least once every three years. These triennial reviews had two objectives: first, they challenged the continued need for an NDPB and identified the best form for the functions it delivered; second, where it was agreed that an NDPB should continue to function, the reviews evaluated their control and governance arrangements to ensure compliance with good corporate governance.

By assessing whether the functions performed by NDPBs need to be delivered at arm's length, triennial reviews can help mitigate the risk of mission creep and institutional drift. The approval process for new NDPBs outlined by the Cabinet Office requires a timeline for the first triennial review to be included in the business plan which must be presented as part of the approval process. This helps reinforce the notion that a body should exist only so long as it is deemed necessary.

Outstanding issues

Although the triennial review process is effective in accomplishing some of the goals of sunset clauses, it is important to note that the process only applies to executive NDPBs. Neither public corporations nor non-ministerial departments are yet subject to triennial reviews, creating a risk that some ALBs escape ongoing scrutiny simply because they happen to take a particular form.

The next recommendation relates to the need to **guarantee that roles and responsibilities remain clearly defined and to maintain organisational performance.**

Recommendation 3. Government should introduce Governance and Performance (GAP) Reviews, to be conducted every three to five years for all ALBs spending over £50 million. Unlike old Quinquennial Reviews, GAP Reviews should ensure that both ALBs and their sponsor departments are delivering against their responsibilities and that these responsibilities are clearly defined. Reviews should be conducted by individuals who are sufficiently independent of government and the review methodology should include a 'peer review' element to stimulate cross-sector learning. Reviews should be published and given the power to recommend that an ALB should be disbanded or its form changed.

Rationale

Regular reviews help to ensure that the roles and responsibilities of public bodies and departments are clearly defined. They hold public bodies to account with their sponsoring department and help to ensure high levels of performance. Crucially, they help identify difficulties before they become critical, including problems of leadership or relationships with ministers and officials.

Progress

The triennial review process implemented by the Coalition indicated a commitment to regularly reviewing whether or not individual ALBs should continue to perform their function at arm's-length from government. Aside from answering this question, the Government hoped that the reviews would have a positive knock-on effect on

³⁰ Dommet, K. Flinders, M. Skelcher, C. Tonkiss, K. *Did they Read Before Burning? The coalition and the quangos*, The Political Quarterly, Vol.85, Issue 2, 2014, pp. 133-142

performance. As Francis Maude stated in 2013: 'Triennial reviews will also challenge public bodies to provide best value for money for taxpayers and will encourage departments to think innovatively about the way they deliver services.'³¹

Before 2002, quinquennial reviews were the core mechanism for taking stock of ALBs. These were ended after a 2002 report on public service reform found: 'few examples of the quinquennial review process itself producing significant business change,' in spite of the high cost of running the reviews.³² Quinquennial reviews were replaced with 'end-to-end' or 'landscape' reviews, which were linked to public service agreement targets.³³ In many departments, however, these reviews were treated as optional. As a result, when the first triennial reviews were conducted, many NDPBs and non-ministerial departments had not been reviewed for a decade.

Triennial reviews share a number of core objectives with the GAP system outlined in *Read Before Burning*. Under the new regime, every NDPB must undergo a substantive review at least once every three years. Among other topics, reviews look at the division of roles and responsibilities between departments and arm's-length bodies to ensure they are clearly defined. Many make recommendations to improve each side's understanding of the relationship. As the Institute previously recommended, reviews have the power to recommend that an ALB be abolished or changed in form, with specific consideration given to the possibility of adopting new commercial models.

Given the variation in the size of bodies, there is an understandable variation in the way in which triennial reviews are conducted. Many involve cross-departmental teams and include members from the department's sponsorship team. Most reviews are led by senior staff from within the department, though there have been cases where team leaders have been more junior.³⁴ Some bodies have been reviewed together. One of the largest reviews to date was the joint review of Natural England and the Environment Agency. The outputs from this review totalled over 100 pages and involved a large team of people from the sponsoring department, Defra.³⁵ Additional support came from a steering committee made up of industry experts. By contrast, the 2013 review of the Technical Advisory Board, a sponsored body of the Home Office, was conducted by a single reviewer and ran to 14 pages.³⁶

Outstanding issues

Although the triennial review process is a clear improvement from previous assessment processes, several challenges remain.

Firstly, reviews have often been more time and resource intensive than expected for both sponsoring departments and for the body being reviewed. According to the NAO, the average review takes eight months to conduct, rather than the expected four to five months.³⁷ One reason for the protracted timescales may be the lack of a robust standard methodology for reviews, which has led to individual review teams generating their own bespoke approaches. The length of time reviews take shows that a fixed three year interval between reviews is not always feasible. The Cabinet Office is therefore sensibly providing some flexibility around when second reviews should take place.

³¹ Maude, F., *Quango reform still has a long way to go*, The Guardian, 2 Jan 2013, retrieved 27 February 2015, www.theguardian.com/public-leaders-network/2013/jan/02/francis-maude-quango-reform

³² Page, 37, *Better Government Services: Executive Agencies in the 21st Century* The Prime Minister's Office of Public Services Reform, 2002.

³³ For an example of a Landscape Review see: Department for Environment, Food and Rural Affairs, *Resource Efficiency Delivery Landscape Review*, March 2009, retrieved 27 February 2015, <http://archive.defra.gov.uk/environment/business/support/documents/resource-efficiency-delivery-landscape-review.pdf>

³⁴ National Audit Office, *Management Report on Triennial Reviews*, March 2014 retrieved 27 February 2015, www.nao.org.uk/wp-content/uploads/2014/02/Management-report-on-triennial.pdf

³⁵ Department for Environment, Food and Rural Affairs, *Environment Agency and Natural England triennial review*, 27 June 2013, retrieved 27 February 2015, www.gov.uk/government/uploads/system/uploads/attachment_data/file/209382/triennial-rev-ea-ne.pdf

³⁶ Home Office, *Triennial Review of the Technical Advisory Board*, 3 December 2013, retrieved 27 February 2015, www.gov.uk/government/publications/triennial-review-of-technical-advisory-board

³⁷ National Audit Office, *Management Report on Triennial Reviews*, March 2014 retrieved 27 February 2015, www.nao.org.uk/wp-content/uploads/2014/02/Management-report-on-triennial.pdf

Both bodies and departments are frustrated at what they see as the one-sided nature of the review process. As it stands, it allows no opportunity for bodies to provide formal feedback about the quality of their relationship with their sponsoring department. The lack of an independent voice in most reviews will continue to prevent this, even if formal guidance changes. Opportunities for learning across ALBs will also remain limited until departments (and the Cabinet Office) embrace the idea of using ALB leaders in the review teams.

Updated Cabinet Office guidelines shift the focus of triennial reviews so that in future they will more explicitly address the principles of efficiency, capacity, innovative delivery, lesson-learning, proportionality and timeliness. The focus on efficiency alongside governance runs the risk of further overloading the process. This raises a wider difficulty – that reviews are still seen by many as focused heavily on the continued existence or restructuring of the body concerned. This focus is only appropriate in some cases. More commonly, it should focus on ensuring that ALBs are set up to succeed.

Finally, certain types of ALBs, including very large ones, continue to be exempt from the triennial review process. While Cabinet Office guidance encourages departments to review these bodies, there are as yet, no formal requirements to do so.

The next two recommendations relate to the need **to develop skills in ALB and sponsor teams.**

Recommendation 4. Departments and ALBs should ensure that ministers, ALB appointees and those moving into sponsorship roles within departments receive appropriate briefing, induction and mentoring. ALB appointees must be provided with opportunities to understand the wider context of departmental business and sponsor teams must provide specialist training on building and maintaining effective relationships, at both individual and corporate levels.

Rationale

Effective induction helps to ensure smooth transfers of power during ministerial turnover, improving oversight of public bodies and departments.

Progress

Recent years have seen important investments in the sponsorship of arm's-length bodies. There are moves in Whitehall toward recognising sponsorship as a specialist profession that combines policy and delivery skills with technical knowledge. A cross-Whitehall sponsorship champion has been appointed with the goal of raising the status of sponsorship in departments and facilitating the dissemination of best practice among sponsors.

Work has also been done to improve induction for people moving into sponsorship roles:

- a new cross-Civil Service competency framework outlines the expectations from good sponsors³⁸
- the Civil Service Learning Network now offers a new training course and a sponsor induction pack³⁹
- the ALB Governance Team in the Ministry of Justice now convenes a sponsorship peers' network, which regularly brings together sponsor teams in different departments, many of whom had never previously met other civil servants in sponsor roles.

Several departments, particularly those with high numbers of arm's-length bodies, have dedicated substantial resources to reorganising their approach to sponsorship. The most successful approaches have come from departments that have surveyed their ALB landscape and have developed a sponsorship model which is tailored for their particular bodies and challenges. Some departments have chosen to centralise their sponsorship system by establishing a central sponsorship team within the department to devise a broad strategy for overall ALB management within the department. Some have developed a risk-based approach to sponsorship, conducting regular risk assessments of their public bodies and using the results of those assessments to determine the appropriate level of sponsorship oversight.

³⁸ Cabinet Office, *Sponsorship Specialism Competency Framework*, April 2014, retrieved 27 February 2015,

www.gov.uk/government/uploads/system/uploads/attachment_data/file/303517/Sponsorship_Specialism_Competency_Framework.pdf

³⁹ Cabinet Office, *Introduction to sponsorship: An Induction pack for new sponsors of arm's-length bodies*, April 2014, retrieved 27 February 2015, www.gov.uk/government/uploads/system/uploads/attachment_data/file/303583/Introduction_to_Sponsorship_An_Induction_Handbook_for_New_Sponsors_of_Arm_s-Length_Bodies.pdf

Outstanding issues

Despite improvements, sponsorship still has a low profile in many departments. It is not clear that sponsorship is viewed as having equal value to traditional policymaking skills. Moreover, visibility has not consistently translated into influence. Approaches to sponsorship continue to vary across departments. Some have taken a proactive approach in establishing good sponsorship practices and relationships with their ALBs but these practices are not widespread across departments and challenges still remain. Commonly cited sponsorship issues include:

- a perception from senior staff in ALBs that sponsors are often too junior to effectively represent them in the department
- a lack of openness and trust between ALBs and sponsors
- micromanagement of ALBs by departments.

Another commonly cited concern particularly from senior staff in ALBs is the impact of headcount reductions and restructuring in departments which have led to a high volume of churn among sponsorship teams and unstable sponsor relationships. Given the extent to which effective relationships depend on trust and understanding between key people, attempts need to be made to ensure greater continuity.

Recommendation 5. The NAO should increase thematic reviews of functions such as grant allocation and benchmark ALB efficiency, to promote best practice across ALBs and sponsor teams.

Rationale

Few mechanisms exist for the development and spread of best practice. NAO thematic reviews have proved helpful for bodies in the past and could provide a platform to promote cross-institutional learning.

Progress

The NAO has not formally taken on this role, however there has been progress in the spread of best practice across ALBs and sponsor teams in other ways. The Public Bodies Team in the Cabinet Office has included the spread of best practice across ALBs within its 2014-2017 Public Bodies Reform Strategy.⁴⁰ In this, it indicates an intention to work closely with the Association of Chief Executives and the Public Chairs' Forum to facilitate the sharing of best practice among ALB leaders. The sponsorship peer network mentioned above plays a similar role for departmental sponsors.

Some larger departments with higher numbers of ALBs have also created department-specific versions of these types of peer networks. One department has brought together its chairs on a number of occasions to share best practices and gain insight into certain issues which may otherwise be overlooked.

Outstanding issues

Although these networks are a significant step in right direction, they remain relatively informal. As the Cabinet Office has announced plans to engage with these networks even more in future reform efforts, it would do well to consider the incentives for these networks and how they can be supported and promoted across Whitehall and the ALB landscape.

Recommendation 6. Government should expand the role of the Public Bodies team in the Cabinet Office to deliver the recommendations in Read Before Burning. This team (or a lead department) should also act as an expert resource for departments, facilitating the sharing of best practice across sponsorship teams and ensuring the availability of appropriate training for sponsor teams and ALB board members.

Rationale

A stronger role for the Public Bodies team can facilitate the co-ordination and implementation of these recommendations and to aid the spread of best practice across institutions. It can also ensure support for departments and bodies as they implement reform.

⁴⁰ Cabinet Office, *Public Bodies Reform Strategy Document*, 18 July 2014, retrieved 27 February 2015, www.gov.uk/government/uploads/system/uploads/attachment_data/file/331860/Public_bodies_reform_strategy.pdf

Progress

The Public Bodies Team's role has been expanded and moved closer to serving as a strategic hub for thinking about ALBs. The team has taken strong steps in facilitating discussion and collaboration among ALBs and departments on further reform. It has collected feedback on several aspects of the reform process, notably the review process and issues surrounding sponsorship, and has improved its guidance to departments and ALBs on these issues. It has also carved itself a more prominent role in the review process, requiring that departments seek consultation and approval at several stages to ensure proportionate, timely, and high-quality reviews.

Outstanding issues

The results of and reactions to these efforts have been mixed. The Cabinet Office faces the challenge of balancing its role of providing strategic guidance to departments and ALBs while allowing them an appropriate level of autonomy in their relationships. While there have been calls for stronger guidance from the centre on areas like triennial reviews and best practice in sponsorship, there is also the question of who should take the lead in thinking about the overall coherence of the ALB landscape.

A critical consideration for the centre moving forward will be honing and refining its role in arm's-length government, determining how departments and bodies should be involved in conversations about further reform and how they can be supported. Particular issues of note include:

- expanding the focus of reform beyond NDPBs to include other types of ALBs
- aligning the efforts of the Cabinet Office and the Treasury on ALB reform, particularly around efficiency measures
- embedding existing reforms and sustaining momentum following the 2015 general election.

The next set of recommendations relate to the need **to build public confidence.**

Recommendation 7. Government should provide a complete list of all ALBs, alongside details of their expenditure, the names of the lead officials responsible for sponsoring them, and links to their websites

Rationale

Making data on ALBs publicly accessible will increase transparency and accountability and build public confidence in arm's-length government.

Progress

After a three year hiatus, 'Public Bodies Reports' returned to circulation in 2012. The new reports are a notable improvement on previous efforts with the most recent data set expanded to include Executive Agencies and almost all NMDs. Reports now include the classification of bodies, triennial review outcomes, government funding received by bodies, total expenditure, names and salaries of chairs and chief executives, links to websites and other useful information. While they do not provide the names and details of department sponsors as recommended, the departments responsible for sponsoring the body are named. Overall, the reports are a significant step forward in increased transparency around ALB governance.

The transition to the standard .gov.uk website has also provided an opportunity for standardising and improving data quality. However, not all ALBs have migrated to the standardised website having been exempted from the move on the grounds that their independence could be seen to be compromised by being hosted on a central government website.

Outstanding issues

Despite improvements in the accessibility of data, it is not clear that the public is more knowledgeable about ALBs and the work they do. The opportunity to implement common information formats along the lines we suggested in the IfG/PCF Transparency Protocol has been missed.⁴¹

⁴¹ *Transparency in arm's-length bodies: A guide to best practice* Public Chairs Forum and Institute for Government, 2011, www.publicchairsforum.org.uk/images/uploads/pcf-transparency-in-albs.pdf

Recommendation 8. The Office of the Commissioner of Public Appointments should build on current work which ensures a fair and transparent process in public appointments by conducting a research exercise to check (and demonstrate) that fair outcomes have been achieved. This exercise would check that the proportion of qualified applicants of each political affiliation is approximately reflected in the proportion of offers made, and would investigate if they were not.

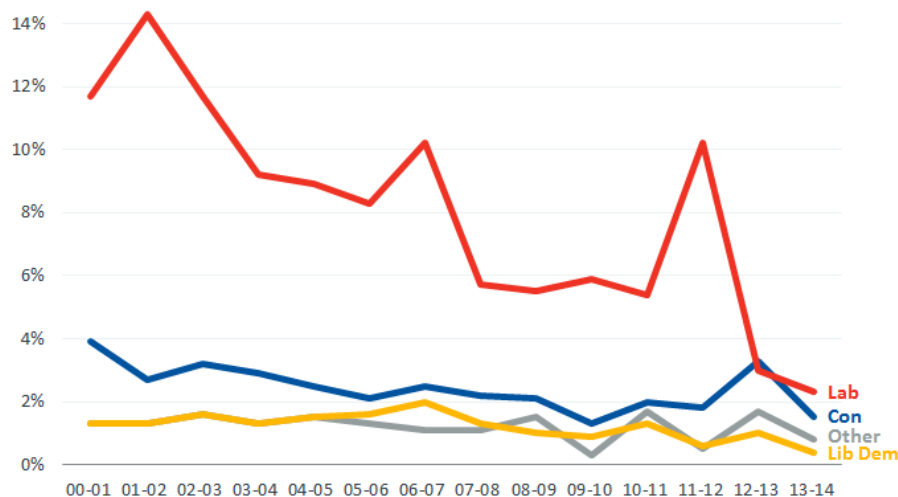
Rationale

Increasing oversight of the public appointments process will help increase public confidence and ministerial trust in ALB leadership by ensuring that appointments to public bodies are made on the basis of merit rather than political motives. It will also help to identify issues with the appointments process in general so that the process may be improved.

Progress

In 2011, the Office for the Commissioner for Public Appointments (OCPA) published a consultation paper asking for views on proposed changes to the regulatory regime for public appointments. Following the consultation, OCPA announced that a new regulatory system would come into force in April 2012.⁴² In addition, the OCPA produces annual reports that evaluate appointments and re-appointments along the lines of gender, ethnicity, disability, age, and declared political affiliation.⁴³ OCPA also periodically reviews the public body appointments processes within government departments, which some department officials have found helpful and instructive as they work to improve the process. OCPA also issues advice on matters such as improving diversity.

Figure 2: Declared political activity of ministerial appointments, 2000-01 to 2013-14



Source: Institute for Government analysis of *Annual Survey of Ministerial Appointments and Reappointments*, Commissioner for Public Appointments, 2013-14.

One of the more interesting changes in the public appointments system is the growing role of select committees. For over 50 public appointments, candidates are required to appear at a pre-appointment hearing with the relevant select committee. As had been recommended elsewhere in Institute research,⁴⁴ the Coalition's *Programme for Government* pledged to further expand this role.⁴⁵

⁴² The Commissioner for Public Appointments, *Review of Public Appointments: Outcome of consultation*, November 2011, retrieved 27 February 2015, <http://publicappointmentscommissioner.independent.gov.uk/wp-content/uploads/2012/02/Consultation%20Response.pdf>

⁴³ Commissioner for Public Appointments, *Annual Reports*, <http://publicappointmentscommissioner.independent.gov.uk/publications/annual-reports>

⁴⁴ Paun, A., Atkinson, D., *Balancing Act*, Institute for Government, 2011 www.instituteforgovernment.org.uk/sites/default/files/publications/Balancing%20Act.pdf

⁴⁵ HM Government, *The Coalition: Our programme for government*, 20 May 2010, retrieved 27 February 2015, www.gov.uk/government/publications/the-coalition-our-programme-for-government

Following prompting from the Liaison Committee, the Government announced that select committees and ministers should agree on job specifications for posts that would be subject to pre-appointment scrutiny. The Government also accepted that departments should provide select committees with more information about how a preferred candidate was selected for a post: however, it stressed that such briefings should be 'suitably anonymised' to protect the privacy of other applicants.⁴⁶

Outstanding issues

Although OCPA evaluations of public body appointments shed some interesting light on the diversity of successful appointees, there is no mechanism for tracking the diversity of overall candidates for these positions. Without this information it is impossible to determine whether certain trends in public body appointments are attributable to the pool of applicants or to the selection process itself.

At the time of writing, the majority of select committees do not have the power to veto candidates. There are several important exceptions to this rule: since they are Officers of the House, the posts of Comptroller and Auditor General and Parliamentary and Health Services Ombudsman are already subject to parliamentary veto, and in July 2010, the Chancellor announced that the Treasury Select Committee could veto appointments to chair the Office for Budget Responsibility. This power has not yet been formally extended to other important positions.

The Institute has previously recommended that the role of select committees in appointments be extended to include veto power over appointments to 25 'top-tier' positions and give committees the power to summon ministers to explain appointment decisions.⁴⁷

Overall, there are still concerns that the appointments process takes too long and deters good candidates. Once appointed, the process for reappointment at the end of a term of service is often unclear. The government has recently moved to the default position that reappointment is the exception, not the norm. This may be due to a desire to make quicker progress on increasing diversity, however when combined with the slow process of appointment, it may deter candidates from applying. As PASC's report highlights, there are also concerns that ending the 'presumption of reappointment' reduces the accountability of the reappointment process and puts large amounts of power into minister's hands with little oversight.⁴⁸

Recommendation 9. ALBs should publish transparent information on their role, relationship to government, funding and performance (including the publication of their GAP health checks) in a standard format. This can be done simply and at low cost through annual reports and through a form of 'kitemark' on website front pages which links through to this core information, as has been implemented in Wales.

Rationale

Establishing transparency requirements for public bodies will help to build public confidence in arm's-length government.

Progress

The Cabinet Office announced improved transparency as a key part of the reform programme in 2012 and a variety of measures aimed at promoting transparency have been undertaken. Completed triennial reviews are all published on the.gov.uk site and the results must be announced to Parliament.⁴⁹ The Cabinet Office's updated guidance on triennial reviews also encourages bodies to hold public board meetings, publish board meeting minutes, and publish an annual report.⁵⁰ Additional government transparency requirements, which ALBs are

⁴⁶ House of Commons Liaison Committee. *Select Committees and Public Appointments: The Government's Response*, 6 September 2012 retrieved 27 February 2015, www.publications.parliament.uk/pa/cm201213/cmselect/cmliaisn/394/394.pdf

⁴⁷ Paun, A., Atkinson, D., *Balancing Act*, Institute for Government, 2011, www.instituteforgovernment.org.uk/sites/default/files/publications/Balancing%20Act.pdf

⁴⁸ Page 25, Public Administration Select Committee, *Who's Accountable: Relationships between government and arm's-length bodies*, 4 November 2014, retrieved 27 February 2015, www.publications.parliament.uk/pa/cm201415/cmselect/cmpubadm/110/110.pdf

⁴⁹ Cabinet Office, *Triennial Review Reports*, www.gov.uk/government/collections/triennial-review-reports

⁵⁰ Cabinet Office, *Triennial Reviews: Supplementary guidance on reviews of non-departmental public bodies*, 2014, retrieved 27 February 2015, www.gov.uk/government/uploads/system/uploads/attachment_data/file/332151/Triennial_Reviews_Guidance_-_annexes.pdf

subject to, include: the publication of any spending over £25k, the publication of all senior officials' salaries and the details of any contracts worth over £10k.

As mentioned above, having halted the publication of annual Public Bodies reports, the Cabinet Office recommenced this effort in 2012. The reports now detail the roles and terms of reference of ALBs across government, their financial relationship to government, their funding and their expenditure in a standard format.⁵¹ In addition to the annual report, the Cabinet Office intends to continue to publishing quarterly updates to their public bodies data.

Outstanding issues

Increasing transparency is a key element of the government's efforts to reform public bodies. Although the issue has clearly been taken seriously, there is still much room for improvement. As previously noted, the NAO reported in February 2014 that from 2012 to 2013, only 14% of ALBs complied with all three of the CO's transparency requirements and 24% complied with none.⁵²

The final recommendation relates to the need to **set arm's-length bodies on stable long-term footing.**

Recommendation 10. Government should implement a new, simpler taxonomy for ALBs whereby organisational form relates clearly to the function an ALB performs. Under the taxonomy proposed here, NMDs would no longer exist and most advisory NDPBs would be treated as expert advisory committees to departments with no independent legal existence. The incremental version of this proposal would be to ensure that all new ALBs should be set up within this framework and existing organisations should gradually 'migrate' to the framework, adapting their governance, performance management and appointments arrangements to fit this taxonomy as far as is possible without primary legislation, or using departmental legislation as it happens. A big bang approach to implement the change more rapidly would require primary legislation to give reorganisation powers, backed up by a raft of secondary legislation. One option could be to reclassify organisations in a small number of bills, as has been done in Scotland.

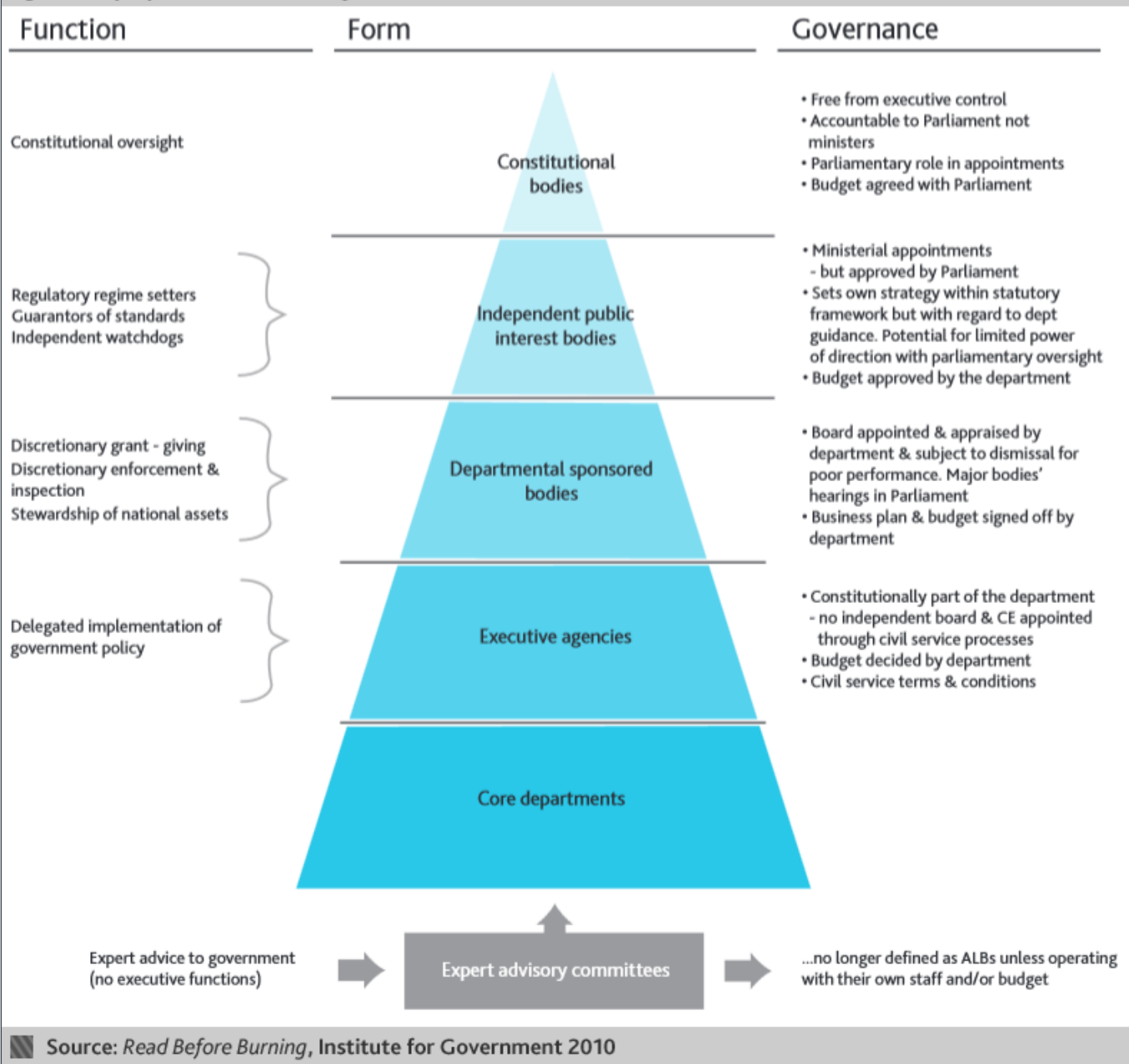
Rationale

A fundamental reorganisation of the arm's-length body taxonomy is needed to bring clarity to landscape. A taxonomy of bodies which matches the form of a body with the function it performs will help to ensure the success of our other nine recommendations.

⁵¹ Cabinet Office, *Public Bodies Reports*, www.gov.uk/government/collections/public-bodies#public-bodies-reports

⁵² National Audit Office, *Progress on Public Bodies Reform*, 7 February 2014, retrieved 27 February 2015, www.nao.org.uk/wp-content/uploads/2014/02/Progress-on-public-bodies-reform.pdf

Figure 3: A proposed new taxonomy for ALBs



Source: Read Before Burning, Institute for Government 2010

Progress

IfG's recommendation to address the issue of classification in the ALB landscape has since been echoed by the PASC in their 2011 report *Shrinking the Quango State* and in their 2014 follow-up which directly endorsed the taxonomy we suggest in figure 3 above.⁵³ There has also been some recognition from ministers that there is a need to ensure that the freedoms and institutional status ALBs have is linked to the function they perform. In the evidence given to the PASC enquiry leading up to *Shrinking the Quango State*, the then Minister for Civil Society, Nick Hurd, said: 'The Cabinet Office and I are minded to go further...in initiating a rather broader review of the whole issue of classification and taxonomy, because we recognise the reform process has only taken us so far; there is another stage ahead of us, and we will be saying more on that in the future.'⁵⁴ In November 2014, the Cabinet Office announced that it was undertaking a review of ALB classification, signalling that the government

⁵³ Public Administration Select Committee, *Smaller Government: Shrinking the quango state*, 20 December 2010, retrieved 27 February 2015, www.publications.parliament.uk/pa/cm201415/cmselect/cmpubadm/110/11002.htm and Public Administration Select Committee, *Who's Accountable: Relationships between government and arm's-length bodies*, 4 November 2014, retrieved 27 February 2015, www.publications.parliament.uk/pa/cm201415/cmselect/cmpubadm/110/110.pdf

⁵⁴ Public Administration Select Committee, *Oral Evidence: Accountability of Public Bodies and Quangos*, 14 July 2014 retrieved 27 February 2015, <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/public-administration-committee/accountability-of-quangos-and-public-bodies/oral/11477.html>

recognised that many of the fundamental problems in arm's-length government would go unaddressed unless the issue of classification was tackled.^{55,56}

The initial public body reform programme adopted one move towards a more rational classification: many advisory NDPBs were, as we suggested, reclassified as advisory committees, reducing the risk that they will become easy targets in a future numbers-driven cull. This is a much better description of their status and relationship to departments, but no work has yet been undertaken to judge whether it has in any way impaired their ability to give independent expert advice to government. However, the lack of a consistent approach means that practice still varies between departments with like bodies having different status.

Outstanding issues

Despite some recognition of the value of a rational taxonomy of ALBs, the opportunity to link ALB form to function and thereby reduce confusion in the landscape has so far been missed. In November 2010, Francis Maude described himself as 'temperamentally slightly allergic to trying to create a top-down overall scheme of arrangement for all of this'. It is not clear whether this remains the case.⁵⁷ However, while the recently announced Cabinet Office review of classification is a welcome move, it has come too late in the parliamentary cycle to enact any lasting legislative changes this side of the election.

The process of restructuring existing bodies may have reduced the size of the ALB landscape but it has, if anything, increased its diversity and complexity. For example, the OBR and the new Competition and Markets Authority have highly bespoke governance arrangements. And the drive to explore new models of public service delivery has led to the creation a number of different joint ventures, with various ownership and governance models.

The 'three tests' applied to ALBs as part of the public bodies reform programme, which appeared to mark a desire for a more principled approach to deciding whether government functions should be performed at arm's length, failed to achieve that impact. The tests themselves were not coherent. What is the difference between 'acting independently' and 'requiring political impartiality', for example? And the tests were not applied in a consistent manner. For example, the Department of Culture, Media and Sport concluded that film funding did not require impartiality so the UK Film Council's functions were re-absorbed into the department, whereas arts and sport funding did and therefore the Arts Council and sports bodies survived (though sports bodies were merged). The BBC was saved by DCMS on the basis that it performed a technical function, while the Foreign and Commonwealth Office thought the BBC World Service should remain because it needed to be impartial. These examples – and countless others that could have been noted – suggest that the process of assessing whether functions should remain at arm's length became one of post-hoc rationalisation, rather than principle-based decision making. Similarly, departments seem to operate on the basis of very different understandings of the implication of executive agency status: the DfE see it as a means of bringing bodies under departmental control while DH claimed that establishing Public Health England as an executive agency would give it independence, a view not taken by external critics or the Health Select Committee.⁵⁸

The three tests offered no rationale for differentiating how much freedom individual ALBs require. This has allowed continued inconsistencies in the freedoms that bodies performing similar functions enjoy. For example, the regulators Ofgem, the Competition and Markets Authority and Ofwat are non-ministerial departments, while Ofcom, another economic regulator, is listed on the Government's website as 'Other'.⁵⁹ The inspectorate Ofsted is

⁵⁵ Pearson, J., *Resolving confusion: the unaddressed issue of public bodies reform*, Institute for Government, 12 November 2014, retrieved 27 February 2015, www.instituteforgovernment.org.uk/blog/9356/resolving-confusion-the-unaddressed-issue-of-public-bodies-reform/

⁵⁶ Cabinet Office, *Review of the Administrative Classification of Public Bodies in the United Kingdom*, 6 November 2014, retrieved 27 February 2015 www.gov.uk/government/uploads/system/uploads/attachment_data/file/371650/Classification_Review_Discussion_Paper.pdf

⁵⁷ Dommet, K. Flinders, M. Skelcher, C. Tonkiss, K. *Did they Read Before Burning? The coalition and the quangos*, *The Political Quarterly*, Vol.85, Issue 2, 2014, pp. 133-142

⁵⁸ Health Select Committee, *Public Health England: Eighth Report of Session 2013-14*, House of Commons, 4 February 2014, retrieved 27 February, www.publications.parliament.uk/pa/cm201314/cmselect/cmhealth/840/840.pdf and Rutter, J., *The Quango Conundrum Revisited*, *The Political Quarterly*, Vol 85, Issue 2, June 2014, pp 148-152

⁵⁹ See: www.gov.uk/government/organisations retrieved 27 February 2015

a non-ministerial department, while the Care Quality Commission is an Executive NDPB. This inconsistency in classifying and reclassifying ALBs has imposed administrative costs. Absent any clear rationale for different governance models, almost every restructuring or shifting of ALB functions has led to a protracted series of ad hoc decisions on the appropriate organisational form and associated governance arrangements. This approach has also allowed neglect of certain classes of ALB – notably non-ministerial departments and public corporations, which are both exempt from triennial reviews.

Recommendations

The recommendations in *Read Before Burning* focused on areas that would help to set the landscape of arm's-length bodies on a firmer footing. There has been some progress towards this. However there are still several key areas where further action is required.

To guarantee that roles and responsibilities remain clearly defined and to maintain institutional performance

1. **The Cabinet Office should refine and expand the process for reviewing whether arm's-length bodies are fit for purpose and the justification for them to remain at arm's length by:**
 - a. Extending triennial reviews to apply to all ALBs, not just NDPBs
 - b. Ensuring that the triennial review process:
 - i. Includes independent voices
 - ii. Encourages peer review
 - iii. Focuses on the question of whether an ALB is set up to successfully perform its function, rather than on identifying efficiency savings (which ALBs should be incentivised to find through budget-setting processes).

To set arm's-length government on a more stable long-term footing

2. **The Cabinet Office must use its ongoing review of classification to create a new, simpler taxonomy for arm's-length bodies, such as the one proposed by the Institute and endorsed by PASC. The new approach must be endorsed by the next government within six months of its formation and fully implemented within the next parliament.** Bringing clarity to the landscape of ALBs cannot be fully achieved without the introduction of a meaningful classification system which matches form with function. Without moves toward establishing such clarity, many of the fundamental challenges facing ALBs will remain unresolved.⁶⁰

To develop skills in ALBs and sponsor teams

3. **The Cabinet Office and the Sponsorship Champion should continue to collaboratively promote the spread of best practice, focusing particularly on strengthening sponsorship capability across Whitehall.** Building and maintaining effective relationships between departments and their sponsored bodies remains essential to effective arm's-length government. The efforts to professionalise sponsorship and raise its profile across Whitehall are a critical element of ongoing reforms.

To build public confidence

4. **Relevant select committees should be granted an effective veto power over appointments to public bodies which operate as 'independent public interest bodies' (this includes independent watchdogs, regulatory regime setters and guarantors of standards).⁶¹ These committees should also have the power to veto dismissals from the same posts.** The perception that public appointments are driven by political interests is partially responsible for public mistrust of ALBs. Increasing the role of select committees in the appointments process would provide reassurance to the public that such appointments are made transparently.

⁶⁰ Public Administration Select Committee, *Who's Accountable: Relationships between government and arm's-length bodies*, 4 November 2014, retrieved 27 February 2015, www.publications.parliament.uk/pa/cm201415/cmselect/cmpubadm/110/110.pdf

⁶¹ Page 57 Gash, T., Rutter, J., Magee, I., Smith, N., *Read Before Burning: Arm's-length government for a new administration*, Institute for Government, 2010, www.instituteforgovernment.org.uk/sites/default/files/publications/Read%20before%20burning.pdf

Conclusion

This paper has focused on how the changes put in train by the government's public bodies reform programme and other reform initiatives across government shape up against the recommendations put forward in *Read Before Burning*. In that report, we concluded that ministers, officials and leaders in ALBs must embrace the opportunity to address the problems in the ALB landscape. The story above is one of an opportunity only partially taken.

While there are clear areas where progress has been made, many pressing questions remain. While the Cabinet Office is attempting to capture the 'wider benefits' of reform, as the Institute has noted previously, there is still a sense that ALB reform is still too close to a 'numbers game' with insufficient emphasis on measuring the true value of reform.⁶² The recommendations we put forward in this report represent our assessment of the best way of taking forward reforms in a way that will ensure an ongoing focus on effectiveness. Some reforms can be implemented immediately, while others – in particular, the introduction of new taxonomy for ALBs – may need the impetus of a new parliamentary term.

Of course, there is more to do than strengthening the system inside which ALBs operate. It is also critical to get the relationships between the different sets of actors in the system working effectively. In 2015, there will be considerable churn of ministers whatever the electoral outcome. In the period following the election, ministers, departments and ALBs will again grapple with some enduring questions:

- How do ministers build strong and trusting relationships with chairs and chief executives and vice versa?
- How can departments support their ministers to get the most out of their ALBs?
- What is the correct level of oversight for departments to have over their sponsored bodies and how do both parties ensure mature performance management relationships are maintained?

These, however, are challenges for the future – and ones we address in wider Institute research.⁶³ We argue that government will be much better placed to answer these questions by taking action now to consolidate recent progress in the approach to arm's-length bodies and, indeed, to deliver the more fundamental reforms that are urgently needed.

⁶² Pearson, J, *Burying the bodies: questions linger about the public bodies reform programme*, Institute for Government, 7 February 2014, retrieved February 26 2015 www.instituteforgovernment.org.uk/blog/7179/burying-the-bodies-questions-linger-about-the-public-bodies-reform-programme

⁶³ See for example: Rutter, J., Noonan, A., Malley, R., Knighton, W., *It Takes Two*, Institute for Government, 2012, www.instituteforgovernment.org.uk/sites/default/files/publications/it_takes_two_final_0.pdf

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