



House of Commons  
Committee of Public Accounts

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# Departments' oversight of arm's-length bodies

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**Twenty-first Report of Session 2016–17**

*Report, together with formal minutes relating  
to the report*

*Ordered by the House of Commons  
to be printed 12 October 2016*

**HC 488**

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## The Committee of Public Accounts

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### Publication

Committee reports are published on the [Committee’s website](#) and in print by Order of the House.

Evidence relating to this report is published on the [inquiry publications page](#) of the Committee’s website.

### Committee staff

The current staff of the Committee are Dr Stephen McGinness (Clerk), Dr Mark Ewbank (Second Clerk), George James (Senior Committee Assistant), Sue Alexander and Ruby Radley (Committee Assistants), and Tim Bowden (Media Officer).

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# Contents

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<b>Summary</b>	<b>3</b>
<b>Introduction</b>	<b>4</b>
<b>Conclusions and recommendations</b>	<b>5</b>
<b>1 Purpose, accountability and understanding performance</b>	<b>8</b>
The rationale for having arm's-length bodies	8
Lines of accountability	9
Understanding performance	10
<b>2 Proportionate oversight and maximising value</b>	<b>11</b>
A proportionate approach to oversight	11
Involvement in policy development	12
Public appointments	12
<b>Formal Minutes</b>	<b>14</b>
<b>Witnesses</b>	<b>15</b>
<b>Published written evidence</b>	<b>15</b>
<b>List of Reports from the Committee during the current Parliament</b>	<b>16</b>



## Summary

Government departments now have more than 460 'arm's-length bodies', through which they spend around £250 billion a year. Departments rely on their arm's-length bodies to deliver important functions and services to the public. Yet over the years there has been no consistent rationale for deciding what is best done through an arm's-length body and what is best done directly by departments themselves. The Cabinet Office recognises that the resultant population of arm's-length bodies is "an accident of history".

The quality of oversight by departments of their arm's-length bodies is inconsistent. They do not always have the information to understand how their bodies are performing and it is not clear that oversight arrangements are always proportionate to the relative risks and opportunities of particular bodies. While we heard some examples of effective oversight, there needs to be much more shared understanding of what works, with learning both within departmental groups and across departmental boundaries. Departments are also missing opportunities to improve services by capitalising on the operational experience and know-how of their arm's-length bodies when developing policy. There is no one size fits all approach to departmental oversight, but the Cabinet Office needs to use its position at the centre of Government to ensure that departments improve the way they manage their business through arm's-length bodies.

## Introduction

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Departments spend large sums through arm's-length bodies and depend on them to deliver a range of important functions, many of which are vital to departments' strategic objectives and provide critical services to the public. Overall, according to the Cabinet Office, there are more than 460 arm's-length bodies (including NHS England and HM Revenue & Customs) spending around £250 billion a year. The scale and role of arm's-length bodies vary hugely, from large executive agencies, like HM Courts & Tribunals Service, to smaller non-departmental public bodies, such as the Gambling Commission. Although arm's-length bodies usually have their own Accounting Officers, departmental Accounting Officers remain ultimately accountable to Parliament for the arm's-length bodies they oversee. The National Audit Office report considered how four departments—the Department for Business, Innovation & Skills, the Ministry of Justice, the Department of the Environment, Food & Rural Affairs and the Department for Culture, Media & Sport—oversee their arm's-length bodies. The four departments oversee 116 arm's-length bodies, which receive an estimated £25 billion funding a year, and employ around 144,000 staff, compared to around 9,200 staff employed in their sponsoring departments.

## Conclusions and recommendations

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1. **For too long government has had no clear criteria for determining what is best done by departments and what is best done through arm's-length bodies.** Departments have not been consistent in how they determine what should be an arm's-length body and what should not. The result is that the current landscape of what is and is not an arm's-length body is, as described by the Cabinet Office itself, "an accident of history" rather than the result of any clear and consistent rationale. We recognise that the Cabinet Office is trying to inject more discipline and logic into the classification process; in April 2016 it published new classification guidance for arm's-length bodies, and it has introduced a new programme of reviews. But given the importance of arm's-length bodies to delivering services, and the scale of spending through them, it is disappointing that more has not been done earlier.

**Recommendation:** *Alongside its Treasury Minute response to this report, the Cabinet Office should provide us with clear criteria departments must consider when deciding if delivery should be through arm's length bodies, and set out by when it expects departments to have come into line with its guidance.*

2. **Unclear lines of accountability between departments and arm's-length bodies mean that it is not clear who to hold to account.** Members of the public interacting with an arm's-length body should be able to find out easily what the chain of command is from arm's-length bodies through to departments. But departments do not have a consistent, open approach to setting out accountabilities that makes it easy to establish who is responsible for what. Departmental accountability system statements are supposed to make lines of accountability clear and transparent, but, despite our earlier recommendation, not all departments have them, or indeed see the benefits of them. Framework documents set out in more detail the operational relationship between arm's-length bodies and departments, but these too are not always in place and are not a substitute for a transparent description of overall accountability arrangements.

**Recommendation:** *Departments should set out clearly, in published accountability system statements, the accountability relationships between arm's-length bodies and departments, in a way that members of the public can understand. They should also clearly set out the responsibilities and accountabilities of each arm's-length body in published, and up to date, framework documents.*

3. **Departments do not consistently have the information necessary to understand how their arm's-length bodies are performing.** For oversight of arms-length bodies to be effective, departments must have a good understanding of how the bodies they are responsible for are performing, and of where there is scope for improvement. Of course, the amount of information held and monitored by departments needs to be proportionate to the size and role of particular bodies. But currently departments do not have a good understanding of what specific performance measures are critical to understanding how well their bodies are performing. More benchmarking of performance would improve efficiency by highlighting where there is scope for improvement. But departments do not do enough to compare the performance of similar types of arm's-length bodies, such as museums and galleries, or to compare common functions between arm's-length bodies, such as customer service, or

to compare performance with private sector organisations. The Cabinet Office has recently begun to compare similar types of arm's-length bodies through its programme of 'tailored reviews'.

**Recommendation:** *The Cabinet Office should work with departments to make sure that they have robust but proportionate measures of arm's-length body performance. Departments should make more use of benchmarking to assess performance, and think beyond both departmental and public sector boundaries for comparators.*

4. **We are not convinced that departments' oversight arrangements are proportionate to the relative risks and opportunities presented by different arm's-length bodies.** Departments generally use risk-based approaches to oversee their arm's-length bodies, which results in some arms-length bodies being subject to closer and stricter oversight than others. But departments do not share knowledge about what works well in applying different approaches, and senior managers across departments rarely discuss how best to oversee and manage arm's-length bodies. Departments' existing oversight arrangements can introduce costs and bureaucracy, or duplicate existing governance arrangements in arm's-length bodies. We heard examples of approaches that focus unduly on compliance and control, rather than improving the value contributed by arm's-length bodies. The Cabinet Office acknowledged that its approach in recent years to improving the 'sponsorship' function across government has not worked well. It described moving to a system that was more tailored towards treating individual departmental groups as a whole, and that considered how each group should be best governed, based on some common principles.

**Recommendation:** *The Cabinet Office, working with departments, needs to build on the National Audit Office report in setting out a principles-based framework for overseeing arm's-length bodies.*

5. **It is far from clear that departments draw on the operational expertise of arm's-length bodies and people using services when developing policies.** When challenged about the development of policy, we were surprised that our departmental witnesses did not put more emphasis on the importance of involving delivery bodies from an early stage. Departments risk missing opportunities to improve services by not making the most of arm's-length bodies' experience and expertise and that of the users of services. Arm's-length bodies know a great deal about service users' needs and how to improve services, and departments acknowledged they could do more to incorporate such feedback when developing policy.

**Recommendation:** *Departments should set out what more they will do to demonstrate that they are drawing on the experience of arm's-length bodies and service users when policies are being developed.*

6. **Delays in the public appointments process create risks for the effective governance of arm's-length bodies.** The power to appoint and remove non-executive board members is an important means through which departments' oversee arm's-length bodies. Departments and the Cabinet Office acknowledge the skills and experience that non-executives bring to arms-length bodies. But the process to appoint them



is lengthy and burdensome and risks putting off good candidates. The Grimstone review, published in March 2016, has made a number of recommendations to improve the public appointments process.

**Recommendation:** *The Cabinet Office should update us by July 2017 on its response to the Grimstone review and the progress made by departments in streamlining the appointments process.*

# 1 Purpose, accountability and understanding performance

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1. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Ministry of Justice, the Department for Environment Food & Rural Affairs, the Department for Culture, Media and Sport, and the Cabinet Office on the oversight of arm's-length bodies.<sup>1</sup>

2. Departments oversee and manage the relationship with their arm's-length bodies, which they rely on to carry out a range of important functions. Overall, according to the Cabinet Office, there are 467 arm's-length bodies spending some £250 billion of taxpayers' money. Three of these bodies—HM Revenue & Customs, NHS England and the Skills Funding Agency—account for more than £200 billion. The scale of arm's-length bodies varies hugely, from large executive agencies to smaller, non-departmental public bodies. But they are often vital to delivering departments' strategic objectives, and provide critical services to the public. Arms-length bodies operate with varying degrees of independence, but in all cases departmental Accounting Officers remain ultimately accountable to Parliament for the bodies they oversee.<sup>2</sup>

3. The Cabinet provides support and guidance to departments about the creation, governance and 'sponsorship' of public bodies. It relies on departments to follow its guidelines and to establish appropriate sponsorship arrangements for the arm's-length bodies in each departmental group. The Cabinet Office also owns the process for reviewing arm's-length bodies to examine whether they should continue to exist, and it produces an annual 'Public Bodies' report, which aims to provide greater transparency about public bodies.<sup>3</sup>

## The rationale for having arm's-length bodies

4. We questioned the departments about the rationale for arm's-length bodies and the criteria used when deciding to create one rather than the activities being undertaken inside a department. The Cabinet Office told us that departments could set up arm's-length bodies where there was a need for particular technical or specialist expertise that was more difficult to bring into the Civil Service, or where there was a need for a greater level of political or ministerial independence. They may also be set up where departments need particular freedoms around pay, for instance, to attract people with particular skills.<sup>4</sup>

5. The Cabinet Office recognised that the landscape of arm's-length bodies was "not particularly clear across government", "very messy", and to some degree "an accident of history".<sup>5</sup> In April 2016 it published a 'classification review', which concluded that there should be only three categories of arm's-length body—executive agencies, non-

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1 C&AG's Report, [Departments' oversight of arm's-length bodies: a comparative study](#), Session 2016–17, HC 507, 5 July 2016

2 [Q 23](#); [C&AG's Report](#), paras 1, 5

3 [C&AG's Report](#), para 1.4

4 [Qq 14-17, 93-94](#)

5 [Qq 18, 22](#)

departmental public bodies, and non-ministerial departments—which are, in that order, progressively more remote from government departments. It recommended that in the future, all new public bodies be set up under one of these three categories.<sup>6</sup>

6. The Cabinet Office has also readjusted its 'triennial reviews' of public bodies, which had been limited to non-departmental public bodies, to a system of risk-based 'tailored reviews'. The tailored reviews are intended to be proportionate to the size and type of public body, more flexible in timing and approach, and to include executive agencies and non-ministerial departments. The Cabinet Office has also introduced new 'functional reviews', which take a cross-cutting look at particular areas of activity, such as regulation. The Cabinet Office hopes that these reviews will, over the course of this parliament, judge whether all arm's-length bodies are appropriate in their current form.<sup>7</sup>

### Lines of accountability

7. Increasing devolution and localisation means that responsibility for spending taxpayers' money is more dispersed. It is very important that if a citizen is interacting with one of those bodies, they can easily find out what the chain of command is. But there is no single list describing all the arm's-length bodies across government. Whilst the Cabinet Office publishes a list of public bodies, there are other lists containing different numbers and constructed for different purposes, which could lead to confusion.<sup>8</sup>

8. We have previously recommended that all departments should prepare accountability system statements covering all of the accountability relationships and processes within that department, making clear who is accountable for what at all levels of the system from the Accounting Officer down.<sup>9</sup> These are important because they allow citizens to see who is responsible for what, where taxpayers' money goes, and who is accountable for it. Two of the departments we took evidence from, the Ministry of Justice and the Department for Culture, Media & Sport, did not have accountability system statements in place. The Ministry of Justice accepted that it would be useful to set out in a public and accessible statement its accountability system, to make it easier for external scrutineers to understand. The Department for Culture, Media & Sport, on the other hand, told us it had no plans to introduce an accountability system statement. It considered that its management agreements and framework agreements were comprehensive, and the governance statement in its accounts described the most important lines of accountability. But it committed to discuss with its audit and risk committee whether to set out accountabilities in more detail.<sup>10</sup>

9. In addition to an accountability system statement, framework documents for each arm's-length body should set out in more detail the operational relationship between the arm's-length bodies and the relevant government department. The Cabinet Office considered that departments should have framework documents in place for each arm's-

6 [Q 18; C&AG's Report](#), para 2.3

7 [Qq 47-50, 62](#)

8 [Qq 19-23; C&AG's report](#), para 2, 1.4, 2.4

9 Committee of Public Accounts, *Accountability to Parliament for taxpayers' money*, Thirty-ninth report of Session 2015–156, HC 732, May 2016; [C&AG's report](#), para 2.8

10 [Q 99-102](#)

length body, but this was not yet the case across the board.<sup>11</sup> The National Audit Office found that 2 of the 12 arm's-length bodies examined did not have framework documents in place.<sup>12</sup>

## Understanding performance

10. We asked departments what data they had to assess how their arm's-length bodies were performing, and their relative costs and benefits. The Department for Culture, Media & Sport told us that it had good financial data, and data about operational performance (such as visitor figures for museums) and the services offered by its arm's-length bodies. However, it said that it did not have a very detailed understanding of the bodies' 'business models' and would like to have more detail on that. It told us it had management agreements with all of its arm's-length bodies which set out a range of indicators, but that these did not cover all the areas it wanted. The Department told us it did not have the standard measures that would enable it to look at the performance of similar bodies by the same measure. It was, however, launching a review of museums which would consider how to develop measures for benchmarking.<sup>13</sup>

11. The Ministry of Justice told us that having good Key Performance Indicators to demonstrate what its arms-length bodies are delivering was "an absolute given" without which governance would not be complete. However, it also said it would like to improve on data being more in real-time, and that it could do more on publishing data and on drawing comparisons. The Department for Environment Food & Rural Affairs considered that it had good data on costs and benefits in some particular areas, citing countryside stewardship schemes and flood defences. It said that it was developing performance information that was properly integrated with its planning system, which in turn would make sure it was tracking delivery of relevant commitments.<sup>14</sup>

12. When asked about benchmarking with the private sector on customer service, the Department for Environment Food & Rural Affairs did not think it had done any such benchmarking before. It considered that it needed to do so as it developed its 'target operating model'. The Cabinet Office also did not think it was doing any benchmarking of arms-length bodies' performance with the private sector. It argued that its new programme of tailored reviews of arm's-length bodies—which included a private sector perspective through the involvement of senior, non-executive directors from the relevant department—was also an opportunity to take forward such work.<sup>15</sup>

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11 [Q 102](#)

12 [C&AG's Report](#), paragraph 11 and 2.6

13 [Qq 26, 28–32](#)

14 [Q 33](#)

15 [Qq 71, 72](#)

## 2 Proportionate oversight and maximising value

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### A proportionate approach to oversight

13. Oversight that is not proportionate to the risks and opportunities in an arm's-length body risks duplicating existing governance arrangements and wasting money.<sup>16</sup> We heard that in October 2015 the Ministry of Justice had imposed stringent spending controls that required its arm's length bodies to clamp down on spending in many discretionary areas, such as travel. It had applied these irrespective of the assessed level of risk or financial management capability of the arm's-length body. The Ministry had asked all its arm's-length bodies to report weekly on how they were spending their money, a regime it has since relaxed. The controls consumed considerable senior staff time and arm's-length bodies felt they implied a lack of trust in their own governance arrangements.<sup>17</sup>

14. We were, however, told that most departments use risk-based approaches to oversee their arm's-length bodies.<sup>18</sup> The Ministry of Justice told us it assessed risk in its arm's-length bodies once a year, separately considering inherent risks, such as the size of the body or the nature of the people that use its services, from dynamic risks such as the capability of the body or changes in the environment in which it works.<sup>19</sup> The Department for Culture, Media & Sport told us it assessed risk of arm's-length bodies four times a year and under four categories, managing bodies more closely if they had more than two amber or amber-red ratings. But the Department told us that it does not share its assessment of risks with the bodies concerned, as it felt the bodies might as a result be "less honest" with the Department about what was going on. The Department for Environment Food & Rural Affairs told us it was developing a new approach to risk management as part of its broader group approach to how it managed both the central department and its delivery bodies. Rather than assessing arm's-length bodies one by one in terms of risk, it hoped to bring their risk into an overall understanding of risk for the departmental group. It told us it had risk management that had operated reasonably effectively within individual bodies but it had not had a strategic overview.<sup>20</sup>

15. Despite the variation in approaches across government, departments rarely discussed at a senior level how they oversee arm's-length bodies.<sup>21</sup> The Cabinet Office told us that chief executives or chairs of arm's-length bodies often talked about the bureaucratic nature of oversight.<sup>22</sup> It acknowledged it had not yet succeeded in improving oversight of arm's-length bodies across government by focusing on sponsorship as a function. The Cabinet Office wants to encourage an approach which, rather than focusing on sponsorship, considers the department and its arm's length bodies as a "total delivery system" and determines the governance and sponsorship that is appropriate for that system. The Cabinet Office acknowledged this might vary by department but should adhere to common principles.<sup>23</sup>

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16 [C&AG's Report](#) para 2.10, 3.8

17 [Qq 56–59; C&AG's Report](#), para 3.15

18 [C&AG's Report](#) paras 13, 3.2

19 [Q 42](#)

20 [Qq 51–54](#)

21 [Q 4–6](#)

22 [Q 69](#)

23 [Q 3](#)

## Involvement in policy development

16. Arm's-length bodies are often at the front line of delivering policy and they have deep expertise and understanding that could be exploited in both designing and implementing policy. However, the National Audit Office reported that arm's-length bodies often felt they were not sufficiently involved in policy discussions. The National Audit Office also noted that the considerable skills and experience of non-executive directors within arm's-length bodies were not routinely exploited and that secondments between bodies and departments were only used sporadically.<sup>24</sup>

17. Departments claimed to involve their arm's-length bodies in policy discussions, for example the Department for Culture, Media & Sport said it talked to Ofcom about telecoms policy, and the Ministry of Justice said it used the Parole Board to advise on the reform of parole policy.<sup>25</sup> The Department for Environment Food & Rural Affairs told us it included two of its biggest arm's-length bodies—the Environment Agency and Natural England—on its executive Committee.<sup>26</sup> But most policy is developed within the central departments.<sup>27</sup>

18. The Department for Environment Food & Rural Affairs acknowledged that if central departments tried to create policy without involving those who have to deliver it on the ground, “the chances are that they will get it wrong”.<sup>28</sup> It told us it was keen to involve people at the front line, and also the eventual users of the service. The Department acknowledged it had not been good enough in the past at reflecting the views of users. For example, it had received a lot of feedback from customers about rural payments, and acknowledged it could have improved how it had carried out this function if it had incorporated feedback from customers into the process at a much earlier stage.<sup>29</sup>

## Public appointments

19. The power to appoint and remove board members of arm's-length bodies is an important way in which departments can influence the governance of those bodies. Departments can help develop understanding between themselves and arm's-length bodies by drawing on the skills and experience of non-executive directors of both departments and arm's-length bodies.<sup>30</sup> The Cabinet Office told us it was seeking to involve non-executive board members in its reviews of arm's-length bodies as they brought a different perspective, often a private sector one.<sup>31</sup> The Department for Culture, Media & Sport told us that it actively drew on the experience of its non-executive directors to liaise with arm's-length bodies, while the Department for Environment Food & Rural Affairs said it included the Chairs of two of its non-departmental public bodies on its departmental board.<sup>32</sup>

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24 [C&AG's report](#), para 16

25 [Qq 78, 83](#)

26 [Q 76](#)

27 [Qq 93, 98](#)

28 [Q 93](#)

29 [Q 98](#)

30 [C&AG's Report](#), paras 2.13, 4.6

31 [Q 72](#)

32 [Q 78–82](#)

20. In March 2016 Sir Gerry Grimstone's review of the public appointments process identified that 'too many public appointments take far too long to conclude which is both inefficient and can deter good candidates from applying'. The Cabinet Office acknowledged that the Grimstone review had been largely welcomed, and agreed that the public appointments process needed to be more efficient and work better for applicants.<sup>33</sup> A new Commissioner for Public Appointments was appointed in April 2016, who was finalising a set of principles for public appointment in response to the Grimstone review.<sup>34</sup>

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33 [Qq 89, 90; C&AG's Report](#), para 2.14

34 [Q 89](#); The Commissioner for Public Appointments, [Peter Riddell appointed as Commissioner for Public Appointments](#), 20 April 2016

## Formal Minutes

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**Wednesday 12 October 2016**

Members present:

Meg Hillier, in the Chair

Philip Boswell	Bridget Phillipson
Caroline Flint	John Pugh
Nigel Mills	Karin Smyth

Draft Report (*Departments' oversight of arm's-length bodies*), proposed by the Chair, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 20 read and agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

*Resolved*, That the Report be the Twenty-first of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Monday 17 October 2016 at 3.30pm]



## Witnesses

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The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

**Monday 18 July 2016**

*Question number*

**Sue Owen**, Permanent Secretary, Department for Culture, Media and Sport, **Clare Moriarty**, Permanent Secretary, Department for Environment, Food and Rural Affairs, **Richard Heaton**, Permanent Secretary, Ministry of Justice, and **John Manzoni**, Permanent Secretary, Cabinet Office

[Q1-104](#)

## Published written evidence

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The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

ARM numbers are generated by the evidence processing system and so may not be complete.

- 1 Cabinet Office ([ARM0002](#))
- 2 Department for Culture, Media and Sport ([ARM0003](#))

## List of Reports from the Committee during the current Parliament

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All publications from the Committee are available on the [publications page](#) of the Committee's website.

### Session 2016–17

First Report	Efficiency in the criminal justice system	HC 72
Second Report	Personal budgets in social care	HC 74
Third Report	Training new teachers	HC 73
Fourth Report	Entitlement to free early education and childcare	HC 224
Fifth Report	Capital investment in science projects	HC 126
Sixth Report	Cities and local growth	HC 296
Seventh Report	Confiscations orders: progress review	HC 124
Eighth Report	BBC critical projects	HC 75
Ninth Report	Service Family Accommodation	HC 77
Tenth Report	NHS specialised services	HC 387
Eleventh Report	Household energy efficiency measures	HC 125
Twelfth Report	Discharging older people from acute hospitals	HC 76
Thirteenth Report	Quality of service to personal taxpayers and replacing the Aspire contract	HC 78
Fourteenth Report	Progress with preparations for High Speed 2	HC 486
Fifteenth Report	BBC World Service	HC 298
Sixteenth Report	Improving access to mental health services	HC 80
Seventeenth Report	Transforming rehabilitation	HC 484
Eighteenth Report	Better Regulation	HC 487
Nineteenth Report	The Government Balance Sheet	HC 485
Twentieth Report	Shared service centres	HC 297

## Public Accounts Committee

### Oral evidence: Oversight of arm's length bodies, HC 488

Monday 18 July 2016

Ordered by the House of Commons to be published on 18 July 2016.

[Watch the meeting](#)

Members present: Meg Hillier (Chair); Mr Richard Bacon; Deidre Brock; Caroline Flint; Mr Stewart Jackson; Nigel Mills; Stephen Phillips.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, Oliver Lodge, Director, NAO, and Richard Brown, Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-104

#### Witnesses

**I:** Sue Owen, Permanent Secretary, Department for Culture, Media and Sport, Clare Moriarty, Permanent Secretary, Department for Environment, Food and Rural Affairs, Richard Heaton, Permanent Secretary, Ministry of Justice, and John Manzoni, Permanent Secretary, Cabinet Office.



## Report by the Comptroller and Auditor General

### Departments' oversight of arm's-length bodies: a comparative study (HC 507)

#### Examination of witnesses

Witnesses: Sue Owen, Clare Moriarty, Richard Heaton and John Manzoni.

**Q1 Chair:** Welcome to today's Public Accounts Committee on Monday 18 July 2016. We are here to look at Departments' oversight of arm's length bodies, on the back of a National Audit Office Report looking at four Departments, of which three are represented here today.

If you look at the figures in the Report—figure 2, particularly—they show the number of arm's length bodies that exist, how much money is spent on them and how many people there are relatively, compared with your core Departments. So there is a huge issue about how they are managed and what benefit they bring to Government. It is a system that has grown like Topsy for various reasons, which we will not go into particularly today. We want to look at what is working, what hasn't worked quite so well and what benefit the taxpayer is getting from some of these arm's length bodies. I am hoping to have an interesting session.

I am delighted that our witnesses today are Richard Heaton, who is the permanent secretary at the Ministry of Justice, which is one of the Departments we looked at; John Manzoni from the Cabinet Office, which has overarching responsibility for this agenda in making sure that there is good and efficient work for the taxpayer; Clare Moriarty from the Department for Environment, Food and Rural Affairs; and Sue Owen, the permanent secretary at the Department for Culture, Media and Sport.

Sue Owen, am I right that you have an overarching responsibility, too, as the lead permanent secretary on this issue across Whitehall?

**Sue Owen:** I have the overarching responsibility on diversity, but I am the champion for the Association of Chief Executives of public bodies.

**Q2 Chair:** Right. To be clear, you are championing the chief executives of the arm's length bodies throughout Whitehall. It is good to be clear on that.

Our hashtag today, for anyone who is following on Twitter, is #armslength.

Before I start, I should congratulate David Mowat MP, who was a member of this Committee until the weekend, when the Prime Minister appointed him to the Department of Health. That goes to show that this Committee is the beginning of people's careers, although in his case, I think he had



## HOUSE OF COMMONS

had a pretty good career before he got to Parliament.

I am delighted to welcome you all. I kick off by asking you this, John Manzoni. There is a huge difference of approach to arm's length bodies across Whitehall. What is your thinking on why it is so different? How do you make a measure of what is appropriate across Government in oversight of arm's length bodies? What level of oversight is necessary?

**John Manzoni:** If I may respond to that, I think your Report has highlighted those differences—

**Chair:** The National Audit Office's Report, to be precise.

**John Manzoni:** Yes. We have had several goes at this, although the first phase of the review of arm's length bodies, between 2010 and 2015, was really about reducing the numbers—getting after the numbers of arm's length bodies—and, very successfully, it took £3 billion and 335 bodies out.

Q3 **Chair:** Just to be clear, you talk about numbers, but you are talking about taking money out.

**John Manzoni:** Money and numbers. That was the first phase of this and it ran from 2010 to 2015. We then went to another phase and we have now redesigned that—because that became a little rote—into some tailored reviews and functional reviews. I am happy to talk about that, although that's not the focus of your question.

We have had a go at the sponsorship notion, but I have to say that I don't think it has worked very well. In other words, back in 2013, I think—indeed, we appointed a DG of sponsorship who sat in the MOJ—we defined sponsorship as a function in itself. I have to say that I take a slightly different view and, therefore, recommended to my colleagues here on the panel that we take a different approach going forward, which is to say that, first of all, the arm's length bodies are all very different, as you can see. They range enormously in size, scope and responsibility. What they actually represent is an extension of the Department's delivery, so really we ought to be thinking about a Department and its arm's length bodies as a total delivery system. Therefore, rather than looking predominantly at sponsorship across all the Departments, I would be more in favour of saying to each Department, "You tell me how you would like to govern and sponsor your arm's length bodies. Determine what the governance of that looks like, against some principles that we can agree." We have a set of six or seven principles that have been promulgated and agreed around the place.

We have had a couple of goes. We have even had sponsorship courses, which we paused at the end of last year because, although they were teaching principles, this wasn't really getting traction. I actually think we will get more traction by looking down departmental axes and requiring the Departments to determine what the appropriate governance is. There are many issues with sponsorship. They come into Departments too low, so we need to have a set timeframe that we can agree with each



## HOUSE OF COMMONS

Department. We would therefore agree with each Department what the appropriate sponsorship and governance of their arm's length bodies is. Frankly, I think that will give us more traction.

- Q4 **Chair:** That's fine. So you are saying, "Let it get out there." Out of interest, how often do you—taking the Departments here today, so the three or four of you, if you count Mr Manzoni as well—discuss what type of management oversight you have of arm's length bodies? That may be about assessing them, how you are assessing them for risk and how you are looking at expenditure. Presumably you talked before preparing for today's hearing, so count that out.

*Witnesses indicated assent.*

- Q5 **Chair:** Good to know; just testing. Before today and before that, how often have you got together and discussed how you are approaching the management of arm's length bodies in your Departments? Ever?

**John Manzoni:** One of the problems is that at a senior level, we do not do that very often.

- Q6 **Chair:** You say you don't. Okay—

**John Manzoni:** We don't very often at a senior level. It does happen at networks, and there are networks across the system.

- Q7 **Chair:** Which goes back to what you were saying—quite long-windedly, if I may say. If you can keep your answers short on this hot day, we can get through a bit quicker. You are saying, "Send it out to Departments", but if there is not any way for Departments to share the best and worst practices—we have some quite good examples in the Report—you are not using the benefits of where it is going well across Whitehall; you are asking every Department just to do it on its own. I am a bit puzzled by your response.

**John Manzoni:** There's a network in existence. There's a peer group in existence. The question is: what is the axis of drive?

- Q8 **Chair:** So who is in the peer group?

**John Manzoni:** We'd still use the peer group.

**Chair:** But who is in the peer group?

**Richard Heaton:** It is chaired by Catherine Lee, one of my director generals. I think it is mostly at DG level.

- Q9 **Chair:** So she is the director general responsible for this. So it is at DG level across Departments—that's the network.<sup>1</sup>

**Richard Heaton:** DG or director, I guess.<sup>2</sup>

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<sup>1</sup> The peer group is a cross government peer network that the Ministry of Justice lead for Cabinet Office and is a network of Deputy Directors, Grade 7s and other sponsors

<sup>2</sup> Catherine Lee is the Cross-Whitehall Sponsorship Champion working with Cabinet Office and key stakeholders (the public Chairs' Forum and Association of Chief



## HOUSE OF COMMONS

**Sue Owen:** Yes, but there is a strategy group as well, which is people more at grade 7—deputy director level—who meet and discuss how the reform strategy is going, and that kind of thing.

Q10 **Chair:** May I ask each of you what lessons have been learned from those groups that have made you look at an arm's length body—at its governance or your oversight of it—and make a change?

**Richard Heaton:** A couple of things: the Centre for Public Appointments started to provide a better focus on appointments a couple of years ago, which has been helpful; and we put in place—I will talk about this in a moment, if you would like me to—a three-tier, risk-based governance structure—

**Chair:** We will come on to risk.

**Richard Heaton:** That was partly by virtue of having chatted to colleagues at the centre. I think part of our architecture has been used by other Departments through the peer network, so that has been used quite well. The triennial reviews, which Mr Manzoni said are being replaced by tailored reviews, were sometimes quite helpful. We certainly found them helpful, and revised the status of one of our bodies from arm's length to executive agency, so we found that contact reasonably useful.

Q11 **Chair:** So you have made changes as a result. Clare Moriarty.

**Clare Moriarty:** For us, our arm's length bodies are so significant that we don't discuss—

**Chair:** Much bigger than your Department.

**Clare Moriarty:** Much bigger than the central Department, and therefore we don't discuss them so much in the context of being arm's length bodies. What we are looking at is a big transformation—

**Chair:** Just for people's reference, on page 19, figure 2, which goes across four pages, gives a useful picture of your Department.

**Clare Moriarty:** We are in the process of trying to create the sort of integrated delivery system that Mr Manzoni talked about. My director of transformational change is part of a different peer group, which is about transformational change programmes across Whitehall, so that is probably the place where our discussions are taking place, although, clearly, people from my Department are plugged into the other networks. We are very much looking at a cross-DEFRA basis for how we create the best possible efficiency and effectiveness across our group.

Q12 **Chair:** Have you made any changes? Take figure 2, which gives a neat summary of your arm's length bodies of varying sizes, from the Rural Payments Agency, which is very large, right down to the Sea Fish Industry Authority, which I am sure is very important, but much smaller.



## HOUSE OF COMMONS

**Clare Moriarty:** We are making constant changes. One thing we have done recently is to bring the chief executives of our four largest delivery bodies on to the executive committee, and the chairs of the two NDPBs now sit on the board, so we are making a whole lot of very big changes to how we operate with our arm's length bodies.

Q13 **Chair:** We will come on to using expertise in a moment. Sue Owen.

**Sue Owen:** I wouldn't say that I have made changes directly as a result of speaking with my colleagues; I think I have gained my experience more from moving around between different Departments. When I was at the Treasury, I was kind of the principal to the agents of the Debt Management Office and National Savings and Investments, then at DWP, I was responsible for health and safety and two pensions bodies. So when I came into a Department whose operating model is entirely through arm's length bodies, I could see that actually that was working quite well, although some things did not happen as often. I make it my business to know the chair and the chief exec very well, even though there are 44 of each of them—I wouldn't say absolutely everyone, but most of them. That was more my personal experience of what had worked well in other Departments.

Q14 **Caroline Flint:** Mr Manzoni, what is the point of arm's length bodies?

**John Manzoni:** I think we can agree that we would set up arm's length bodies in the event that, for instance, particular technical or specialist expertise was needed that was more difficult to bring into the civil service. That would be one reason. If there were a need for a greater level of political or ministerial independence, then that would be another example. So there were very good reasons to set up those arm's length bodies. They are also set up if you need particular freedoms around pay, for instance, to attract the right sort of competence to do the job that the arm's length body is carrying out.

Q15 **Caroline Flint:** Thank you for that answer. Looking at page 4 of the Report, under "Key facts", it identifies 9,200 staff across the four core Departments that we are looking at in relation to this, and 144,000 members of staff in the 116 arm's length bodies covered. Going back to what you just said in answer to my question about more independence and more freedoms, do you think the balance is right between the oversight of the core Departments and enabling the ALBs to get on with their job? Should it be heavier-handed or lighter-touch than what we have at the moment?

**John Manzoni:** No, I think it should be appropriately handed actually, and I do not think it's obvious. They are all actually quite different. Sometimes, massive activities are going on. I would say that sometimes our governance of that is not as strong as it could be, and sometimes it is over-strong for a particular reason that is important to a central Department, but might not be so important to an arm's length body. It is quite a mixed picture, which is, in the end, why I believe that the predominant axis has to be down the Department. We have to make sure that the Departments are appropriately overseeing the activities. Ms





Moriarty has decided to pull the arm's length bodies more into the core of the Department; others will be pushing them further away.

**Q16 Mr Bacon:** But what criteria are used? The Rural Payments Agency under Ms Moriarty's Department, to use the three definitions in paragraph 4, performs a technical function, requires impartiality—obviously, you don't want the Minister saying, "Well, that farmer is a pal of mine, so he'll get the money, and this one isn't, so he won't"—and needs to act independently to establish facts. The record of the Rural Payments Agency over many years, despite being independent, at arm's length and having more autonomy to get things done, has been woeful. It has been repeatedly fined through the EU mechanism and therefore there has been a hit on the DEFRA budget. We are used to getting letters from DEFRA saying that it can't do x due to the failures of the Rural Payments Agency.

Yet you have another function, the Child Support Agency, which is in nearly every respect similar—it's a technical function; you need political impartiality and don't want a Minister to say, "Well, this single mum will get money because I like her, and that single mum won't"; and it needs to act independently to establish facts—where the entire activity has been taken inside the Department. I don't even begin to understand by what criteria it was decided that this function of paying money to parents who are single and need support should be done internally in a Department by civil servants, and this other one, of paying money to farmers, should be done at arm's length. How do you decide?

**Clare Moriarty:** Well, I think—

**Mr Bacon:** And Mr Manzoni, because Ms Moriarty can only speak for her own Department.

**Clare Moriarty:** I will speak for my own Department and then Mr Manzoni is certainly best placed to give the overview. When you take up post, you inherit a landscape, and there will be a whole set of reasons why that landscape is there. There is always an opportunity then—and also now through the series of tailored reviews—to ask whether that is the right landscape. That is a process that we will be going through. But there is a significant opportunity cost to changing the status of any particular body. With an executive agency, which the Rural Payments Agency is, it is an administrative act to decide not to have an agency, but there is still a significant organisational, financial and human cost to making a change.

**Q17 Mr Bacon:** With respect, that is quite a long answer, but it's also a process answer. It is saying that, given what is extant when you turn up, there are costs and benefits to changing it and you have to weigh those before you come to a decision. If I had asked you, "When you arrive, is there an extant landscape that has costs and benefits, and do you have to take those into consideration before changing it?", that would have been an answer along the lines of my question, but my question was about what criteria you use when trying to decide in the first instance whether you should be going down route A or route B. Obviously, where you are now, given that somebody made that decision a while ago, is not



## HOUSE OF COMMONS

going to be irrelevant—I appreciate that—but I am trying to get to the kernel of what it is that causes one to make a decision that something should be in-house or at arm’s length.

**Clare Moriarty:** It is about the benefits—what are the benefits? You go back to whether there is a benefit from operating at arm’s length—whether from a technical point of view or culturally, there is a benefit or possibly a disbenefit from having organisations at a greater or lesser distance from the Department. You are absolutely right about the key criterion. The three criteria in paragraph 4 were articulated in 2010 specifically in relation to non-departmental public bodies, which are slightly different from executive agencies, but they are still three good tests. Those are criteria that we would apply to say, “What do we think the benefits are of this particular model?” What the existing landscape determines is what the costs are. You then have to say, “What are the benefits of the current arrangement? What do I think the benefits might be of moving to a different arrangement?”, but I then have to look at what the costs are of making that move.

Q18 **Mr Bacon:** Isn’t it very often just the results of past fashions? There was an enormous fashion, wasn’t there, from ’87 and Next Steps onwards, of shifting towards executive agencies? That went a very long way, until they became essentially unmanageable—so far at arm’s length that they were out of reach and Ministers felt they had completely lost control. Now the fashion is to some extent to bring it back. I personally sympathise with that, but how much is it really about benefits and how much is it about fashion?

**Clare Moriarty:** That is what I mean about the historical landscape. The basis on which people have made decisions in the past determines what you find when you arrive. The best possible assessment you can make about what the position is going to be in the future, which will vary from Department to Department, from circumstance to circumstance and in different time periods, is going to determine the assessment of benefits. Inevitably, there is an element of people making a best judgment—but it has to be a subjective judgment—about what they think is the best arrangement, and you are absolutely right that the view that has been taken in the final instance by Ministers in making decisions over time has varied.

**Chair:** We will come back to how you assess the benefits and costs.

**John Manzoni:** To some degree, you are right. It is an accident of history, but I don’t think it is about fashion, because at any point there would be a coherent logic for doing whatever we are doing. A few years ago, we found ourselves with a proliferation of arm’s length bodies, and they were all different, they were called all sorts of things and it really wasn’t clear, so we spent about a year and a half, as I understand it, doing a classification review. We now at least have three clear categories of arm’s length bodies: executive agencies, non-departmental public bodies and non-ministerial departments. Going forward, all public bodies will be placed into one of those three categories, and they are essentially



## HOUSE OF COMMONS

progressively more remote from Government in the order that I described them.

That took about a year and a half to do and was published at the end of last year as a classification review. Before any new body is set up, it will go through those tests and so will be one of those, and then as we do triennial reviews—we will review 318 bodies over the course of the rest of this Parliament—bodies will be assessed against those and put into one of those categories. We can take a fresh look, because to some degree we do have a bit of a mixed landscape and as you look at it, it is not particularly clear. I am sure the people on this panel can articulate why they are where they are in their particular Department, but as you look across Government, it is not particularly clear.

Q19 **Chair:** It is so unclear that there is not even a list anywhere, is there?

**John Manzoni:** There is some debate. I have a list, and there are 467 public bodies on it.

Q20 **Chair:** You have a list. Is that a public list? How can the average citizen find out what—

**John Manzoni:** That I don't know, but I have a list right here. There are 467 on it.

Q21 **Chair:** If you have that list, is there any reason it is not public?

**Oliver Lodge:** The Cabinet Office public bodies list is published, but there are other lists that contain different numbers and inform different bodies.

**Chair:** That is the thing: there is no one list, so a citizen auditor would have to go and do a bit of digging to find out.

**John Manzoni:** At the margin, there are some differences. I agree with that. That speaks to the complexity of the landscape that we are dealing with here.

Q22 **Chair:** Is there anything you are doing to resolve that?

**John Manzoni:** The answer is we have this classification review. I have to say that the landscape is very messy. We took 335 of them out up to 2015, and we are doing another few. Sponsorship and classification are the next phase of clearing this up.

Q23 **Chair:** In terms of transparency, we have a proliferation of devolution and other agendas in government that mean that more, smaller bodies are responsible for spending taxpayers' money. This is quite a well-worn group that are doing that. We as a Committee think it is very important that if a citizen is interacting with one of those bodies, they can find out what the chain of command is. Are you confident that they could do that right now? If not, when will that be possible?

**John Manzoni:** Out of the 467—

**Chair:** On the Cabinet Office list.



## HOUSE OF COMMONS

**John Manzoni:** Yes, but the other list is only a few more or less. It is only right at the margin. That is £253 billion of taxpayers' money. Three of those bodies—HMRC, NHS England and the Skills Funding Agency—account for more than £200 billion of taxpayers' money. Of the other 464 public bodies, 30 account for 96% of the remaining £46 billion. You are pretty quickly at the margin. Provided we have the big three and we have the next 30, we are right down to the small numbers. They are still important and we have to look at them, but that gives a little perspective on it.

Q24 **Chair:** But they are important as well for the people who might be using the service that they are regulating, be it fish or gambling or whatever.

**John Manzoni:** Yes, absolutely.

Q25 **Chair:** Can I just ask our three permanent secretaries of Departments? Clare Moriarty, you were talking to Mr Bacon about understanding the benefits, but the NAO Report shows that you don't really have good data on the costs and potential benefits of the arm's length bodies in your Departments. Perhaps we could go the other way—Sue Owen and across—to tell us what you are doing to improve that, and what needs to be done, both in your Department and more widely, to make sure that you have got that data to make that assessment properly.

**Sue Owen:** It is true that in DCMS we have not taken, explicitly, a kind of cost-benefit approach to our sponsorship. We are very tiny and most of our money—98% of it—goes to our arm's length bodies. We see proportionality as the key, so we have enough oversight to ensure public accountability but otherwise we have quite a light-touch approach. That approach has changed over the years—

Q26 **Chair:** What about the data that you have got to assess what is going on?

**Sue Owen:** We have very good financial data about what is going on and we do have data about participation and the services that they offer and so on. We do not have, for all of them, a very detailed understanding of their business model. That is something that I, personally, would like to have more detail on. For our national museums and galleries, for example, we are now launching a museums review where we can perhaps look in more depth at their business model.

Q27 **Chair:** Would that be with a view to sharing data between the museums?

**Sue Owen:** Yes, we do quite a lot of sharing of approaches. We have a meeting of all the chairs and chief execs twice a year. At the one we had on 4 July we had a discussion about handling capital projects, so the folk who had just finished the extension to Tate Modern talked about their experiences—

Q28 **Chair:** I am sorry—this is important and we will come to some of it later—but we are talking about the data you have got on how they operate, in terms of what the benefits are. It may be that you have got a better cost-benefit ratio for some organisations than for others. Do you have that data and, if not, are you planning to get it, or are you saying that it is not



cost-effective?

**Sue Owen:** We don't hold it in exactly that form at the moment. It is not something that we were planning to do, but I think it is quite a useful thing to come out of this Report that we should perhaps think of doing and maybe think about whether we could get some benchmarks.

Q29 **Mr Bacon:** How do you measure? You just surprised me when you said it might be interesting and quite a good idea to think about how we might get some benchmarks. It sounds like you are not and that the answer to my question is, "We don't." I was about to ask how you measure the relative performance of the Tate gallery, the British Museum, the Victoria and Albert Museum, the Natural History Museum or the Science Museum; plainly, they have all got significant sums of money granted to them and the efficiency and effectiveness with which they spend that money will vary in lots of different ways. How do you measure it?

**Sue Owen:** They have different proportions of their total money coming from grant in aid, so most of them now are increasing the amount of money they get from commercial sources and from philanthropy and so on.

**Chair:** Can I just be clear on figure 2—for anyone watching—that this is expenditure?

Q30 **Mr Bacon:** Yes, this is total expenditure. I understand that, but the expenditure still comes from somewhere; some of it might be from income generated and some of it might be from grant in aid. You, as an oversight body, looking over these is really like comparing peaches with peaches with peaches, more or less, isn't it? Obviously there are differences between them, but they are museums that have visitors and there are very large similarities between them. They ought to be—

**Sue Owen:** We do look at their visitor figures very actively, and at their growth in visitor figures and participation by all manner of socio-economic group and by gender and so on.

Q31 **Mr Bacon:** Good, but you have said it might be a good idea to develop some benchmarks. I was surprised by that because I would have hoped you would have already. Plainly, visitor numbers is a good starting point, but one could do a lot more than that to measure the effectiveness—the level of engagement with primary, secondary and tertiary education, the penetration by different demographics, as you say, and so on. There is a whole host of different metrics that one could come up with. How advanced is that work?

**Sue Owen:** There are quite a lot of measures like that, but we don't yet have standard measures so that we look at all of them by the same measure. That is something that I hope the museums review will come up with.

Q32 **Mr Bacon:** When is that going to be published?



## HOUSE OF COMMONS

**Sue Owen:** We are just launching it now, and Neil Mendoza and Simon Thurley are leading on it. I would imagine we will finish that half way through next year.

Q33 **Chair:** Can I just go to Clare Moriarty on the data on costs and benefits?

**Clare Moriarty:** In terms of the costs and benefits of the activity, we have quite a lot of data on some areas, for example flood defences. We look at the costs and benefits; we know quite a lot about the costs and benefits of particular types of countryside stewardship scheme, and therefore of the advice that is provided to help people sign up to those. So in some areas we have got quite a lot of information about costs and benefits. In terms of performance, we are developing performance information that is properly integrated with our planning system, to make sure that we are tracking their delivery of the commitments that we have written into the plan.

**Richard Heaton:** I think I would distinguish between my big executive agencies that deliver my core business. So NOMS, the Prison Service, is frankly, to all intents and purposes, a part of the Department. I have a dashboard on escapes and on deaths in custody, and on violence and recidivism, and the same for probation and so on, so I will put that to one side.

As far as the more traditional arm's length bodies are concerned, our sponsors—we do use that word for this category—are required to have a checklist; and one of things on the checklist is "Are there good KPIs demonstrating what this organisation is trying to deliver?" That is an absolute given, so that the governance is not complete until we have a proper set of data KPIs.

Where we would like to get better, I think, is in trying to become what we call a data-driven Department. We would like that stuff to be more real-time and more open. I think we could probably do more on publishing it and drawing comparisons across the piece. But a key part of sponsorship in my Department is that we know what we are supposed to be getting from the arm's length bodies.

Q34 **Chair:** That brings me to my final question in this strand of questioning. If you had to do a star chamber and bring in any of the organisations listed in this Report and ask them about their performance, are you convinced you have got the right tools to say to one of the museums, for example, "Why have you got these high visitor numbers, or these low ones?", or to say to one of the countryside stewardship agencies or one of the MOJ bodies, "Why are you performing so differently from another?" It may be a quick yes or no, or you may want to expand on it.

**Richard Heaton:** As I said, I have three tiers. For ones in tier 1, where we have the lightest touch, I would probably expect to know less about their data. For the high-risk ones that carry risk about human lives or lots of money, I would expect to know more. So I would expect to know a base level for all of them, but the degree to which I understand their data probably depends on which tier I put them in.





## HOUSE OF COMMONS

Q35 **Chair:** But you are confident that you have got mostly the right information for each tier.

**Richard Heaton:** Pretty confident, yes.

Q36 **Mr Bacon:** Sue Owen, do you say to your arm's length bodies in DCMS now—or is this something for the future—"Have you got the following key performance indicators, or do you have an appropriate set of key performance indicators, and without that the Department deems that you don't have a proper governance structure"?

**Sue Owen:** Well, we have a management agreement with all of them, which will include some indicators, and it will vary depending on the type of organisation, whether it is a regulator, a public service broadcaster, a museum or gallery, or whatever. So I think we do have the indicators that are set out in the management agreement. What I think I have said to you earlier is that I don't think, on all the museums and galleries, that we have a full range of performance indicators of the kind that ideally we want to see. We don't have the engagement with schools, for example, as a kind of standard set.

Q37 **Mr Bacon:** Can I just say for the record that, from what I have seen of him on BBC Four, Simon Thurley is an outstanding public servant, and the sooner he makes more programmes the better.

**Sue Owen:** He is doing our museums review, so I will relay that compliment to him.

Q38 **Chair:** Just to finish off Richard Bacon's question, if you were to call in any of your bodies to a star chamber, how close are you to getting to be able to do that, if that was your approach? I am not saying that should necessarily be your approach, but just as a litmus test.

**Sue Owen:** I think we would be pretty good on most of them. I think on the museums and galleries it is not quite as good as I would like.

Q39 **Chair:** Okay, Clare Moriarty, the same question for you.

**Clare Moriarty:** I think it is a very similar position to Mr Heaton's. We have got tiers of bodies. I keep a very close eye on the Rural Payments Agency, for precisely the reasons Mr Bacon outlined. It provides me with weekly tracking information, which I go through with a fine-toothed comb.

**Mr Bacon:** I bet it does.

**Clare Moriarty:** The Environmental Agency is one of the bodies in the middle, and I know what its dashboard looks like and what I expect to see. A lot of its information pulls through to the overall departmental management information report because it is large and significant for us. I feel confident that we have the right information, but because we pull through on a scale basis, I don't personally have the same visibility of every one of the smaller bodies, although I would expect the right information to be there.

Q40 **Chair:** But someone in the Department does?



**Clare Moriarty:** Yes.

Q41 **Deidre Brock:** Mr Heaton, you mentioned a three-tier risk-based structure, and I think you touched on the same sort of thing for monitoring risk, Ms Moriarty. Mr Manzoni, there seems to be a wide variety of approaches from the different Departments and how they understand the monitoring risk in their ALBs. Where is the scope for ensuring that information is shared between Departments? Is that the network you mentioned?

**John Manzoni:** I think it should be, and I think that to some degree it does happen. As part of the reviews that I am proposing for sponsorship—we had one go at sponsorship and it didn't work as well as we would like, so we need another go—I think that is the place where we need to think now about risk, among other things. How do we think about risk and how do we reflect risk in ALBs? Is it just to do with numbers, or with centrality or whatever it is? I think that is the place. Some of it happens in the networks, but again it is just a matter of not being as robust or complete perhaps.

Q42 **Deidre Brock:** Mr Heaton, could you go into it in a little more detail, to give us an idea of how that gives a better understanding?

**Richard Heaton:** Once a year we do a risk assessment of all our arm's length bodies, apart from the Prison Service and the Courts and Tribunals Service, so traditional arm's length bodies. We look at their intrinsic risk: are they dealing with lives or large amounts of money, and the reputational thing. We also look at their dynamic risk: are they in a good place right now with the capability in place to manage their risks? Depending on their intrinsic risks, we put them in levels 1, 2 or 3. Depending in their variable risk, we decide how much intensity to sponsor them with within each tier. So in tier one, which is the lowest risk, we would expect to have a quarterly stocktake, as opposed to a monthly stocktake or whatever it is up to level three, which is frankly intense, with the sort of supervision that Clare Moriarty was describing.

We review it every year. The proposals from my arm's length bodies team come to the executive committee, which I chair, and we generally move one or two bodies up or down each year. It depends on the dynamic risk and whether an organisation is thought to be in a good place or needs a bit more monitoring. We put the system in place four or five years ago and it is still iterating, but it seems to do the job quite well.

Q43 **Deidre Brock:** But you still have a problem with the Office for Legal Complaints, which was obviously assessed as low risk, but obviously ended up being rather more than that. That was still taking place while this structure was—

**Richard Heaton:** You are right, and we learnt from the OLC situation. The checklist I described came out of that, or was amended. That is quite a good example. The OLC was not a high-risk organisation compared with CAF/CASS or the Parole Board. There was a governance failure in the OLC,





## HOUSE OF COMMONS

which meant that expenditure took place that was irregular in Treasury terms and, frankly, should have been picked up.

Q44 **Deidre Brock:** But you knew about that only because of a whistleblower.

**Richard Heaton:** You are right. I am not saying that any supervision of an arm's length body necessarily catches everything; it doesn't. That is the point of a risk-based approach. Perhaps we could have seen that earlier, but it was a governance failure right at the top of that organisation. Expenditure was incurred in accordance with the directions from the governing body itself, so it was something that a traditional sponsoring approach might have spotted. We didn't in this case, but we have certainly strengthened our defences since.

Q45 **Stephen Phillips:** If the OLC had been less of an arm's length body—in other words, if it had been closer to Government, or even if the same function was discharged inside the civil service—it wouldn't have been possible for irregular expenditure to have been made at all, would it?

**Richard Heaton:** Not unless someone was ignorant of their responsibilities. Every civil servant has line management responsibility, which includes knowing how Government money works.

Q46 **Stephen Phillips:** That leads back to Mr Bacon's question to Mr Manzoni on whether the fashion for arm's length bodies went too far. Perhaps what we need to do is look very closely at what we are left with and see whether they need to be brought closer to Government so that the risks are reduced.

**Richard Heaton:** That is an arguable case. Remember that the OLC was part of an essentially regulatory regime that was levy-funded by the legal profession, and none of it was within Government. It was monitored by Government, because it is public money, it was a compulsory levy and it serves a public function, but it was never a Government function in the first place. But you are right; that argument is generated by what happened.

Q47 **Stephen Phillips:** Mr Manzoni, do you want to comment on that? There is one particular example of whether things went too far with arm's length bodies and whether the same risks still exist in relation to other arm's length bodies.

**John Manzoni:** We are going through all the arm's length bodies over a period of time. We started with the triennial reviews. We have now readjusted the review process so that they are called tailored reviews, and we are also doing some functional reviews, so every arm's length body in Parliament will be reviewed. We have that disciplined process, although we may not have got to this particular one in time, so I do think we have a process where we can continuously revisit this question. I think it is a relevant question to ask, but it needs to be asked in the context of the body in the proper review. Is it doing its function? Is it appropriate for it still to be an arm's length body as currently constructed?

Q48 **Stephen Phillips:** That begs the question whether the triennial reviews



## HOUSE OF COMMONS

are themselves appropriate, because they don't take into account the risk factors associated with arm's length bodies. It might be said that by comparison with other bits of Government that are subject to review, what you actually need is a tailored basis for review that isn't just, "Every three years we will look at this." What are the risks? Maybe we need to inspect this body more frequently than this other body.

There is a question for the Cabinet Office, I would suggest, on whether just saying, "Okay, we'll inspect everything every three years" is the right approach, or whether you actually need to look at the risks associated with particular bodies and say, "These bodies need to be inspected more frequently; but these"—for example, the Tate galleries or something like that—"we can just look at every five years." It is about focusing your resources where the risks are greatest, rather than just saying, "Okay, we'll look at everything every three years."

**John Manzoni:** That is exactly why we have changed the process of review. You have just described the process of tailored reviews, as opposed to the process of triennial reviews.

Q49 **Stephen Phillips:** Right. So is the triennial review system disappearing?

**John Manzoni:** Yes. It is being replaced by the tailored review system.

Q50 **Stephen Phillips:** When does that happen?

**John Manzoni:** It has already started. We have 18 tailored reviews this year, and we will build to about 30 per year. There are 132 scheduled, which will cover 318 public bodies. They are proportionate reviews. Actually, every public body will be reviewed once per Parliament, but the depth of the review will be proportionate to the risk associated with the body, so we have essentially changed the triennial review process.

**Stephen Phillips:** That is very helpful. Thank you very much.

Q51 **Deidre Brock:** I have one last question for Ms Moriarty and Ms Owen. I noticed from figure 9 on page 30 that the Departments do not share overall assessments with ALBs. Can you outline why that is?

**Sue Owen:** In our Department, we assess the risk of every arm's length body four times a year, and we have four categories: financial/legal, organisational, operational and reputational. All 44 are assessed on those, and if they have more than two ambers and reds, we will manage them more closely and at lesser arm's length than we normally do.

Q52 **Deidre Brock:** So you would share assessments with them in those instances?

**Sue Owen:** We would talk to them in coming to our assessment, but we would not, on the whole, go to them and say, "You're top of our worry list. You've scored so many risk points."

Q53 **Deidre Brock:** Why not?

**Sue Owen:** Well, I would talk to the chair and say, "We're very worried about you." I wouldn't say—well, I might say—"You're right at the top of



my worry list," but I wouldn't go to someone else and say, "You're 31st at the moment, and you don't need to worry about anything." We could share these scores with them, but our judgment is that, if we did, they would be less honest about telling us what is going on. It would become a bit of a league table.

We had an internal audit function to look at our risk approach just recently. They looked at the individual risk registers of the institutions involved, and felt that we were capturing all the risks about right. For me, it is about relationships. I fully expect a chair to tell me when they are worried about things and me to tell them when I'm worried.

**Q54 Deidre Brock:** And that partly reflects the cut in funding that you have had to adopt that approach, haven't you?

**Sue Owen:** The Tate Modern extension is a good example. That was a red for quite a while because it was just such a lot of money and such a big extension. We weren't inherently worried about Tate but we wanted to keep an eye on that particular capital programme.

**Clare Moriarty:** The Report caught us mid-development of a new approach to risk management. What we are trying to do, again, as part of this broader group approach to how we manage DEFRA and its delivery bodies, is to create a single harmonised risk-management system, with a common language and a common system for escalation.

Rather than assessing organisations one by one in terms of their risk, we will be bringing their risk into an overall picture for the Department, which will then escalate up through to the executive committee and the board.

What we are trying to do is to get a more comprehensive approach overall, but that does depend on having a common language. What we have had is risk management that has operated reasonably effectively within the individual bodies but we haven't had that strategic overview.

**Q55 Deidre Brock:** Are both of you basically reliant on the chair picking up the phone to you, or them alerting you to the problems in the first instance? How does it work?

**Sue Owen:** No, absolutely not. My sponsorship team will be talking to their bodies all the time, but I feel that my job is, on top of that, to have a good relationship with the chair and the chief exec, because there are some things you can't pick up just in measures and numbers. There is what the Comptroller and Auditor General calls the sniff test. It is only by meeting people that you can kind of work out what else might really be going on.

**Clare Moriarty:** We certainly don't depend on the chair picking up the phone. As I say, what we are trying to get to is a system where the local assessment of risks feeds into a process that then flags up issues as they come up the system.



## HOUSE OF COMMONS

As Ms Owen says, that is supplemented by the relationships and the touch points and ensuring that we have that sense of what is going on. For our larger bodies, again, the four chief executives of the largest delivery bodies sit round the executive committee table every Monday morning, so I have a very regular touch point with them.

**Q56 Chair:** Can I turn to figure 14 in the Report? Richard Heaton, this is the figure that shows us that 42% of your arm's length bodies are unclear about the Department's objectives in relation to their work; 26% are partially clear and 16% are unclear. Can you tell us why that is and what you are doing to correct it?

**Richard Heaton:** I'll be fairly frank here. I was disappointed that we came bottom of this particular league table of four Departments in each of the scores on this survey. That is disappointing to see. Generally speaking, I think we have a good relationship with our arm's length bodies, so I was disappointed to see that, as was the team that supports the sponsorship.

To be frank, what I think happened was that the survey went out at a particular time that was difficult for us and the arm's length bodies for two reasons. One, we had just been visited with a 50% admin cut in the spending round, and we had asked the arm's length bodies to model what 50% would look like in their organisations, so that did not add to a great relationship. We didn't visit the 50% cut on them but we asked them to model it.

Secondly, we had imposed, as I think I have discussed with this Committee before, some fairly stringent emergency spending controls, which required them to stop spending in all sorts of discretionary areas.

**Q57 Chair:** I think paragraph 3.15 refers to that. I was going to ask about that.

**Richard Heaton:** We asked them to report to us weekly on how they were spending their money. We have since relaxed that reporting regime. I would hope and like to think that the relationship has got to a better place. Certainly, I spend a fair amount of my time—certainly my DGs do—in relationship-building with the arm's length bodies.

I invite all of them to my senior civil service conferences to hear the Secretary of State speak and to hear me speak. We try to inculcate the idea of an MOJ family, but at that particular moment in time they did not like us perhaps as much as they do now.

**Q58 Chair:** We'll see. I am sure the NAO will be doing this in future and we will see where you come then. Going back to that issue about the spending controls that you put in place, they were really draconian and required three or four layers that you had to go through for every tiny piece of expenditure. You seem to indicate that you have given up on that now. What lessons have you learned about that? Why did you go in so heavy, so un-risk-based?

**Richard Heaton:** When the Secretary of State came in in May last year—I came in a couple of months after that—we came across a budget that was



## HOUSE OF COMMONS

heading for a very large overspend. We had no choice but to put the brakes on where we could. We put in place a fairly stringent, brutal round of controls. The controls are still there, but they are exercised with greater common sense. The weekly reporting has gone. More autonomy is given to directors general to approve cases and they, in turn, encourage arm's length bodies to come up with block approvals, and so on. So it is a much easier process to manage.

**Q59 Chair:** But are you doing any analysis—it wouldn't take much analysis—of the cost of the time for people checking every taxi receipt, compared with allowing it to be devolved?

**Richard Heaton:** No, we didn't do any numerical analysis, but we know that it was not a system that could be sustained. We knew that its main value was, as Francis Maude used to say in the Cabinet Office, the shock value of spending controls. Things just stop being spent and, lo and behold, we cut our expenditure, month by month, and, with the help of a reserve claim—but not as large a one as we were expecting—we came within our budget at the end of the year. It sort of helped to put an emergency brake on spending, but we knew that it could not be sustained.

**Q60 Chair:** We have two other departmental heads here. I wonder whether you have tried anything similar and what approach was taken—what we might dub the Eric Pickles approach to expenditure came in very big a few years ago, then we had this example. Have you got examples of how you have done it either the same or differently?

**Clare Moriarty:** When I arrived in DEFRA, for similar reasons, DEFRA was looking at a very large potential overspend because the Department had come into the financial year with some over-programming. There was an emergency Budget early in the new Parliament, and a 5% reduction in a budget like DEFRA's—it was £87 million—was a very large reduction. It is really difficult to accommodate that in the short term, because all the things that you might need to change either cost money to implement or take longer to do. DEFRA had a system in place that was not vastly dissimilar to what MOJ had. There were many discussions that had taken place before my arrival and many that I had with the executive committee after my arrival about where we could find savings. There were also quite tight controls on spending. They had the effect of managing to reduce expenditure, so we spent probably over £100 million less than we might have done. As a finance director, it is not the way I wanted to manage finances, because it is much better to plan and look for genuine efficiencies, but the decision was taken to impose a 5% reduction on departmental budgets, and you have a limited number of levers to be able to respond to that within the very short timeframe of an in-year production.

**Sue Owen:** We haven't had anything as draconian as described for the MOJ. Our arm's length bodies lived through the last Parliament with a series of cuts and all delivered on them. Happily in the last spending review, we had a flat cash settlement for most of them. What we are



## HOUSE OF COMMONS

working with them on at the moment is better forecasting, so that they end up with less in the way of underspends at the end of the year.

**Q61 Chair:** Notwithstanding that there was an emergency Budget, because we recognise that that placed challenges on anyone spending taxpayers' money, what efforts do you go to—perhaps Mr Manzoni can answer this as well—to make sure that there is a culture within all arm's length bodies that it is taxpayers' money that they are spending and that they are accountable for? It is not just other people's money that they are spending. How much is that in the culture of your arm's length bodies?

**Sue Owen:** Not bad actually. Some of them would say, "Only 17% of our money is from the taxpayer", like the Tate, but we do a lot of work with the group of finance directors—all the finance directors meet a couple of times a year. The commercial directors meet together. The chairs of the audit committees will meet together. They are pretty aware that they are spending taxpayers' money.

**Clare Moriarty:** I would say that DEFRA's delivery bodies are absolutely aware that they are spending taxpayers' money. The DEFRA group had a significant budget reduction in the 2010 Parliament. Our spending review requires us to make, effectively, a further 25% reduction in our administrative spend—that covers all the delivery bodies, as well as the central Department—over the next five years. That is what is taking us down the route of major transformation. We are joining up all our corporate services across the group in a much more efficient way and in every part of our business. As a group we are looking for ways of doing things in the most efficient, streamlined, technological, data-driven way we possibly can. That is without distinction. There is absolutely no sense that that is different for the central Department than it is for the delivery bodies. We are all in it together and that is the benefit I get from having the chief executives of the key bodies on my executive team and the chief executives of the next six largest bodies meeting regularly and completely tied into the transformation we are having to make. We have to deliver broadly the same outcomes with significantly less taxpayer's money.

**Richard Heaton:** It is pretty good on value for money and I think everyone gets that. I was reflecting on our exchange about the OLC. One of the things that went wrong at the OLC was probably that it was levy funded and therefore not spending taxpayer's money, so managing public money was alien. I think that is what went wrong, so part of what we have to do is to encourage or require arm's length bodies to understand that it is public money so we have to take into account value for money and also follow Treasury rules for spending public money. Culturally, that is a bit difficult if a body is levy-funded. That is something we have had to address.

**Q62 Chair:** Mr Manzoni, I hope you have heard the different approaches from different Departments. How can you make sure that we don't see the same levels of difference of approach and that you take the best and help others to learn? That goes back to the point I made right at the beginning about how you share best practice. You have the new reviews replacing





## HOUSE OF COMMONS

the triennial reviews and all the things you have described, but how convinced are you that you can actually drive these improvements through?

**John Manzoni:** I will say the following. The axis for performance is predominantly down the departmental axis. That is where the public bodies are driven. If you asked all the permanent secretaries, I expect they would have similar answers in terms of the greater or lesser extent of focus on value for money. I think it would be a bit variable across Government, but in general Departments will be aware of that.

This did occur to us. I have stood in front of Public Chairs' Forum and the Association of Chief Executives several times and said, "Come on guys; you must do 40% through whatever axis we are going to do it." One of the outcomes of that is the new set of reviews go along with the tailored reviews that are ALB by ALB but, for instance, we have begun a functional review that is taking a cross-cutting look at, in this case, regulators—71 regulators in its cross-cutting review. The balance, of course, is always how to get turkeys to vote for Christmas, but they are coming up with some potentially profound recommendations that I think will have a considerable effect on value for money and efficiency across the board. They themselves are beginning to say, "You know, we could do this differently." If it comes from the Cabinet Office, it is very hard to do because the lines are too different, but if it comes from them—another functional review is about to start on advisory bodies, of which there are many—we ought to be able to get at it through a different axis: efficiency and value for money.

Q63 **Chair:** Can I just take you back to the shared services hearing we had with you only weeks ago? That seems like a long time in this place at the moment. There was a real difficulty in getting people to sign up to a shared service agreement, yet you are taking a positive outlook and saying they are all getting together and discussing it and it will be great. How can you be so sure when shared services were not bought into by many of the bodies we are talking about?

**John Manzoni:** As I said at the time, I believe that shared services will be rosy from here because I think we are in a much better place.

Q64 **Chair:** It is always going to be better in the future.

**John Manzoni:** Yes, but you will no doubt hold me to account for that. We have had a crash in shared services. On public bodies reform, we had a very successful 2010-15 although we may have paused a bit. The DEFRA approach is a fundamental reform of the arm's length bodies. There is no need for the Cabinet Office to get in the middle of that. It will be enormously powerful. So the question is: "How can we from the centre now put in place ways of complementing whatever is happening in the Departments?" As it happens, I do think that we do and can strengthen the governance and performance management and performance accountability down the line of the Department. I don't think it's done centrally. I think it's done down the line of the Department, which is why I started where I started from, by saying said that, actually, we can ask



every permanent secretary to review them, and I think they will be quite happy to do so. It is all about how you ask the questions; it is all about how you set the context; and it is all about what sort of conversations you have. And I actually believe that we can. I am relatively optimistic about the regulators review, strangely, because I know what they are about to recommend. They are recommending some fairly profound changes to how we regulate, and that is coming from the regulators. The difficulty I will then have is persuading the Departments that those changes might have a beneficial effect. That will be an interesting question, but it is coming the other way this time.

**Q65 Chair:** In a moment I will ask about the quality of services, but I will first go to the Comptroller and Auditor General, Sir Amyas Morse.

**Sir Amyas Morse:** Very quickly, the PAC previously recommended that there should be a functional review of inspectorates, which was to be included, I think, in the review you were just talking about, but I gather that it has been removed. What is happening?

**John Manzoni:** I can't remember why we moved from inspectorates to regulators.

**Sir Amyas Morse:** Can we have a note about it?

**John Manzoni:** Yes, I will give you a note as to why we moved.

**Sir Amyas Morse:** I am not that fussed if you don't remember, but we would like—

**John Manzoni:** I literally can't remember. I am sorry. We did have that conversation.

**Chair:** Two years ago. We were discussing it in this room.

**John Manzoni:** But we have now moved to a regulators review, which has been going for about six or eight months and will be reporting at the end of September. That is our first functional review. There is another review about to start on advisory bodies, so I think we just substituted regulators for inspectorates, but I can't quite remember why we did it.

**Sir Amyas Morse:** We would love to know the follow-up on the inspectorates. I have one other quick question on when a body ceases to be an arm's length body. I am particularly interested in Jobcentre Plus. Did you detect any difference in how it functioned when it stopped being an arm's length body? We have talked about it, but there are quite substantial bodies that stopped being arm's length bodies. Do you notice any difference in them?

**John Manzoni:** I haven't studied it.

**Sue Owen:** Perhaps I can say something about that, because I used to be in DWP. I think we did see some improvements, actually, because we were closer to the staff. Staff who are customer facing often have very good ideas about how you can improve policy so, by being closer to them and





## HOUSE OF COMMONS

by going out to talk to them a lot, we made some refinements. I will give you one example: we were looking at having some work experience and apprenticeships, and we said, "We want you to offer 28 hours a week." On one of our tours around the country on a Friday, a very junior member of staff in Gloucester said, "There's no way we can get 28 hours a week here, but we can get 20 hours," or whatever it was. So we changed it to 20 hours. The proximity meant that, in that case, we got some improvements.

**Q66 Chair:** Could that not have happened through a well-run arm's length body?

**Sue Owen:** There would just have been more distance from the policy makers.

**Q67 Mr Bacon:** You make a very interesting point that is of much more general application. Isn't it generally true—this is probably for Mr Manzoni—that the answers to the problems of how organisations are mismanaged almost always lie at the bottom of the organisation, and thus the improvements, too?

**John Manzoni:** You could certainly inform judgment from the bottom of the organisation, and it is often pretty clear what is going on.

**Q68 Mr Bacon:** Gerry Robinson made that point in his film about the NHS, but isn't it true of pretty much every large organisation?

**John Manzoni:** The tops of organisations often have a different perspective. The work is done on the frontline, so I am a big fan of understanding and knowing what is happening on the frontline. You are right that it is a problem if you lose that channel of communication and that feedback.

**Q69 Chair:** We have talked a lot about oversight for compliance and control for financial management. Mr Manzoni, what scope do you think there is to shift the balance of oversight so that it is also looking at improving the quality of services delivered by these arm's length bodies? If any of the permanent secretaries have examples of where they think that is going well or badly, that would be helpful, too.

**John Manzoni:** Sorry?

**Chair:** What scope is there to move from this compliance and financial control model to a model that actually helps to drive up performance at the frontline of these arm's length bodies in terms of service delivery?

**John Manzoni:** Each of the Departments will have their own answer. From my perspective, it is an observation of where we have evolved to. It is not true everywhere, but if you speak to some of the chief executives or chairs of the arm's length bodies, they will often talk about the rather bureaucratic nature of the oversight, which I think is a problem.

That is, of course, why we say we need to get better at sponsorship and all of those things. We have had a go, as I said. I think we have to have a



different go, which comes down the line and then convenes a conversation at senior level about what is the appropriate governance and sponsorship for these arm's length bodies. It should cover all sorts of things. It should cover whether it is risk-based. It should cover performance management. It should cover level and degree of service. It should cover information flows—what sort of information flows are we having? It should cover all of those things.

I have to tell you that I think each person will have an answer today. I think those answers will be variable. I believe there is scope now to begin that conversation but we have to do it down the line, because it will all be different.

**Q70 Chair:** Does anyone else have any good or bad examples?

**Clare Moriarty:** I will go back to what we are trying to do at DEFRA on a whole-group basis. We have spent a lot of time over the past six months developing a target operating model, which is essentially trying to design an organisation that can deliver the strategic objectives for the whole group within the financial envelope and be a great place for people to work.

We have done that collaboratively across the central Department and nine delivery bodies, and we went right back to the following questions. Who are our customers? What are our services? How do we articulate things, not in terms of what the Department or this, that or another body do, but as a customer, what do I want? So, "I want to fish", "I want to keep livestock" or "I want to manage my farm". We have articulated everything in terms of what the customer wants to do, and then built a model of how the services need to be delivered back from there, at every stage saying, "How can we find opportunities to deliver those services better?"

There are some things that are specific to particular types of activity, such as food and farming or the natural environment. There are a whole lot of other activities that happen in all sorts of different parts of the DEFRA group, such as making payments or dealing with customers. So we are now taking those and asking how we best do them across the DEFRA group in a consistent, streamlined fashion that provides the best possible service to customers.

It moves beyond ideas of oversight or sponsorship into an organisational model and an operating model that everyone is brought into, which is absolutely founded on customers, user need and service improvement.

**Q71 Chair:** Out of interest, do you do any benchmarking with the private sector when you are looking at customer service in that strategic way?

**Clare Moriarty:** I am not sure that we have done any to date, but I think we need to do that as we develop the model of what we are aiming for.

**Q72 Chair:** Because there are some excellent examples of public sector service, but there are also some very good examples in the private sector. Mr Manzoni, do you do any benchmarking?



## HOUSE OF COMMONS

**John Manzoni:** I don't think we do; I have not seen any. That is not the only opportunity for doing this. We have these tailored reviews, where there is the opportunity to ask all of these questions.

One of the things about the tailored reviews, which are different from the triennial reviews, apart from the proportionality of them, is that we have asked for the senior, non-executive directors on the boards of each Department to be involved in them. That brings a different perspective—a private sector perspective—into those tailored reviews. One of the differences of a tailored review is that a non-executive director from the relevant Department is involved in the oversight of that review, and I think that puts a different perspective on it.

Q73 **Chair:** Mr Heaton, you are going to come up with an example. We looked at victim support among other things in the criminal justice system a few weeks or months ago—I lose track. Customer service wasn't perfect, was it?

**Richard Heaton:** No. I am sure nothing in my world is totally perfect. I was going to give one example going slightly the other way so as to challenge the premise of the conversation.

My example of improvement is the Office for Legal Complaints. I have been on the record twice in front of this Committee describing what went wrong. I should put on record that that is now a much-improved organisation. I have just re-conferred accounting officer status on the chief executive. That is a result of good, careful sponsorship from my team. That is an example of improvement.

The only slight challenge is that I don't think we should assume that arm's length bodies are, by their nature, recalcitrant and that they will only improve by relentless focus from the centre. There is something about hiring someone really good to go in and transform the organisation and to be given a bit of space to do that. I would not want the conversation to assume that it is only by relentless focus from the sponsor that we get improvement.

Q74 **Chair:** We hear about the bad ones through our postbags and in our surgeries. We will perhaps touch on a couple of examples in a moment, but I want to return to sponsorship, which a number of you have talked about—*[Interruption.]* Sorry, Sue Owen, did you have an example?

**Sue Owen:** I was going to give you an example of customer service. Not all of my bodies are customer-facing, but let's take the museums and the galleries. We have managed to get some improvements in customer service in an unusual way: by giving them more freedoms and flexibilities, by undoing some of the controls, and by allowing them access to reserves and borrowing and removing some of the pay caps. Some of them have then managed to build a new café or whatever. For example, the Horniman has had a 35% increase in sales because we let them borrow to build a café and so on. That is quite an interesting example of giving them more freedom.



## HOUSE OF COMMONS

**Q75 Chair:** Several of you have mentioned sponsorship. It is obviously an important function, especially as a good way of sharing experiences when things don't go so well. How do you ensure that the people who have the sponsorship role in the Department—perhaps you could be clear, for each Department, roughly what grades they range from and to—have a good understanding of the arm's length body they are sponsoring? How long do they stay? We get concerned on this Committee about high turnover of people and how that affects things. We will start with Richard Heaton and go across. How do you make it work in your Department?

**Richard Heaton:** As I have said, I don't use the term sponsorship for the ones that, broadly speaking, we are directly managing as part of the line business, such as prisons and courts, but I do use it for the arm's length bodies. If they are tier 3, I would expect the sponsor to be, effectively, the director general. I spread it around, but all my director generals have responsibility for the sponsorship of the arm's length bodies. For levels 2 and 3, I would expect the "in practice" sponsorship to be at deputy director or director level, depending on the tier.

**Q76 Chair:** Do they get induction training and an understanding of the arm's length body they are overseeing?

**Richard Heaton:** I cannot give you chapter and verse, but I am sure they would. In most cases, they would probably be doing it alongside the policy sponsorship functions. They absolutely need to know legal aid or how the legal profession is regulated without stepping foot into the sponsorship role. They would do that by virtue of having policy responsibility. It travels with the rest of their day job, if you see what I mean.

**Clare Moriarty:** Like the MOJ, we have quite a lot of variable geometry. Of our executive agencies, three are line managed by the chief operating officer and one is line managed by me. The Environment Agency and Natural England are part of my executive committee. In practice, I have a personal relationship with them and they have a relationship with the director general. We have teams of people who will be involved in the day-to-day business of those organisations. We have had a sponsorship team, but we are moving more towards integrated arrangements, wherein often the sponsorship role will sit with the policy team.

Like Mr Heaton, I couldn't give you chapter and verse about exactly what training people go through, but when I have been out visiting arm's length bodies, which I do quite regularly, if there has been someone from the sponsor team with me, they have always known a lot about the organisation—

**Q77 Chair:** I bet they do if they're going out with the permanent secretary!

**Clare Moriarty:** They have not given the impression that they have mugged up only for the purpose of coming out on a visit with the permanent secretary. We call them delivery bodies for a very good reason: the point of them is that they are delivering services that are part of what we do as the DEFRA group. To that extent, other than things like advisory committees, which might be at a slightly greater remove, and, to some



## HOUSE OF COMMONS

extent, the national parks, they are bodies that are critical to our overall delivery. The people in the Department who are mostly in contact with them will therefore be in very regular contact and have a very good understanding of what they do.

**Sue Owen:** We have a central team of around 18 people, and then we have 26 people bedded out in teams, who are the policy sponsors. In addition, I know my ALBs well, as does my deputy, the director and the finance director. We have at least two meetings a year, collectively, but also a lot of one-on-one meetings. If someone is coming in new and working with Ofcom, they will spend perhaps a week at Ofcom, getting up to speed.

We also offer induction the other way. We have just started a programme of induction for new board members for our ALBs. I spoke at one of those a couple of weeks ago, and there were 10 of those. We try to do it both ways. I think we have quite a good model.

Q78 **Chair:** We have had different models from all of you. The DEFRA one sticks out as one where you are relying a lot on the technical expertise. As you said, you have brought the people on to your board to help you as a Department to manage your functions. However, one of the potential benefits—it is why I was asking earlier about how you measure it—is that you've got that expertise to help build policy development and potentially improve overall Government policy. How are you working to use that expertise in the bodies back in the Department? I will leave you until last, Clare Moriarty, because you have probably answered that pretty much already, but you may want to add something.

**Sue Owen:** How do we use the ALBs' expertise? I would say kind of daily, really. We talk to Ofcom all the time on things to do with telecoms policy; similarly with the Gambling Commission. We also use our non-execs quite a bit to liaise with them. We're a very small Department, as you know, but the technical expertise is definitely out there and we draw on that actively.

Q79 **Stephen Phillips:** Do any of them sit on the departmental board?

**Sue Owen:** Of our arm's length bodies?

**Stephen Phillips:** Inside the Department—you have a departmental board, yes?

**Sue Owen:** Yes, and we have four non-executives.

**Stephen Phillips:** And are any of those from the arm's length bodies?

**Sue Owen:** No, they don't sit on the arm's length bodies at the same time, but some of them have. So, our lead non-exec was chair of the Tate for some time—

Q80 **Stephen Phillips:** It may be that I misunderstood, but I understood that what Ms Moriarty was saying, Dame Sue, was that some of the people on the departmental board inside DEFRA are from the arm's length bodies.



## HOUSE OF COMMONS

**Clare Moriarty:** We have two non-departmental public body chairs who sit ex officio on the departmental board, as well as our non-executives.

**Stephen Phillips:** But that's not a model that DCMS has chosen to follow.

Q81 **Chair:** Is there any reason you haven't chosen to follow that? I know you are different Departments; I just wonder why one is doing one thing and the other—

**Sue Owen:** Well, which would we choose?

**Chair:** I guess that would be my obvious thought, that you're not similar—

Q82 **Stephen Phillips:** If we go back to Mr Bacon's point that although there are a variety of arm's length bodies that you oversee, the functionality that they discharge is in some cases the same, it wouldn't be that difficult to choose—

**Sue Owen:** It wouldn't, but as I say, the chair of the Arts Council used to be on our departmental board and our lead non-exec used to be chair of the Tate. I think we've chosen our non-execs quite wisely.

**Stephen Phillips:** I am not saying that DEFRA is better than DCMS. It may be that DEFRA has made a mistake in doing it, but it seems to me that there is a question for Mr Manzoni to resolve about whether this is good practice that should be extended across Whitehall.

Q83 **Chair:** Perhaps I could just bring in Richard Heaton on how we use the expertise, and then we will come back to that.

**Richard Heaton:** I have a couple of quite good examples. One was using the Parole Board to advise on the reform of parole policy. I think we made quite a good cross-cutting use of CAF/CASS to help advise the Youth Justice Board on how to do board governance; that was helpful.

I wouldn't dream of describing the judiciary as an arm's length body, because they are an arm of the state in their own right, but we have quite a complicated landscape to run justice and we couldn't do much at the centre without understanding other perspectives. So, we use them quite a lot in developing our thinking on justice matters, I would say.

Q84 **Mr Bacon:** I just wanted to return to something Sue Owen said a moment ago. You said you speak to Ofcom a lot—pretty much every day. Do you have discussions with them at all about how to get BT Openreach to answer the telephone?

**Sue Owen:** I don't personally—

Q85 **Mr Bacon:** I met someone at a dinner, a representative of a major corporation, who said, "We spend £700 million a year with them and we can't get them to answer the telephone. What chance do you think you've got, or your constituents?" Is it something you discuss with them?

**Sue Owen:** We do discuss BT with them, yes.

Q86 **Mr Bacon:** BT Openreach specifically?





## HOUSE OF COMMONS

**Sue Owen:** Yes, we do.

Q87 **Mr Bacon:** And the fact that there's no competition in the telephone repair sector. It does come up, does it?

**Sue Owen:** That is a decision they are considering actively at the moment, as you know.

**Mr Bacon:** I am pleased to hear it.

Q88 **Chair:** But I think Mr Bacon's wider point is that when you're shaping policy, the day-to-day experience of your arm's length bodies is playing into how you shape that policy?

**Sue Owen:** Absolutely, yes.

**Mr Bacon:** I have a tank museum in my constituency and someone wrote to me about it recently, because it turns out that when the MOD sold the tanks they didn't fully decommission them, in case they needed to buy them back. It did occur to me that if one were to—no, I don't think I'll go there. But if you could find a way to get BT Openreach to answer the phone, it would be really good.

Q89 **Chair:** In the Grimstone review, which looked at the public appointments process, one of the criticisms that came out about arm's length bodies was of the length of time they take to go through the public appointments process. We know it has gone through many iterations, but perhaps you could update us on what has been happening on the Grimstone review since it was published four months ago.

**John Manzoni:** The Grimstone review was largely welcomed, as you say. A lot of it was aimed at making the experience of being hired by Government a rather more pleasurable one—because there were lots of examples where people had frankly got fed up and disappeared—and making it more efficient and better for applicants. The main recommendation was a reminder that all these appointments are ministerial, that we have to reform the process to speed it up—those reforms are under way—and that we have to have increased transparency to go with ministerial appointments.

We have just hired a new public appointments commissioner who, as we speak, is about to complete a set of public appointment principles that are in line with the Grimstone review. We are in action, implementing the Grimstone review. It was welcomed by Government and, with the increased emphasis on ministerial appointments—and it is a Minister's appointment—the public appointments commissioner has a more important role. How he—in this case it is "he"—does that will be very important going forward. I haven't actually seen his governance code, which he has either just issued or is about to issue. I know it is on the verge of being issued, I think in the month of July.

Q90 **Chair:** We pick up experience as Members of Parliament from people who have gone through the process. We hear of longwinded processes with little feedback for people, whether or not they have been for an



## HOUSE OF COMMONS

interview, and long gaps between being interviewed and any decision. That does not seem to me a very good way to treat people who are trying to give their time, either for very little money or sometimes for free, to further good public ends. Are you hoping that these changes will change some of that?

**John Manzoni:** Yes, I am, and I remind the Committee that all the appointments are the responsibility of the Departments, so we have to work with them to improve their processes to get these appointments done.

Q91 **Stephen Phillips:** How long did it take to appoint the new public appointments commissioner, from beginning to end?

**John Manzoni:** I don't know the answer to that question.

**Stephen Phillips:** Could you let us know?

**Mr Bacon:** It's like the Schleswig-Holstein question.

Q92 **Chair:** We will certainly come back to that. We know that our sister Committee—the Public Administration and Constitutional Affairs Committee, to give it its full title—was somewhat critical of some of the elements of the Grimstone review for removing some of the protections against undue influence, so there is a balance to be struck.

**John Manzoni:** Hence the commissioner is an important role. That is why I made the point.

Q93 **Nigel Mills:** How often do you see an emerging policy area and think, "Oh God, I wish that wasn't an arm's length body. I wish I had more control over this."? Is that something you feel, on occasion?

**Clare Moriarty:** Most policy development, certainly in my Department, is held within the central Department. We sometimes talk about operational policy, which is the practical end of it—"This is the overall policy framework. What is the right route to implement it?" But many Departments hold the basic framework of policy—"How do you translate the decisions Ministers make into things that can be practically delivered?"—mostly within the central Department. An arm's length body would be involved in making sure that that is delivered in an effective way. That is, again, where we absolutely have to do the join-up, because if somebody sitting in a central Department tries to create the policy without connecting to the people who have to deliver it on the ground, the chances are that they will get it wrong.

Q94 **Nigel Mills:** Let's pick an issue completely at random: rural payments. I suspect that there may be a little change coming in the next year or two. Don't you think, "Actually, having this separate agency might make it really quite hard for us to design our own scheme and to get one that works and gets cash out at the right time. I'd rather get that back in-house and sort this out myself"?

**Clare Moriarty:** The Rural Payments Agency is a delivery body that is responsible for receiving claims, processing them and making payments; it





## HOUSE OF COMMONS

is not the body that designs the replacement for the common agricultural policy. There is a policy team within the central Department—

Q95 **Nigel Mills:** But it will be important to getting that right, won't it?

**Clare Moriarty:** Certainly, in terms of making sure that the delivery is absolutely effective, we need to think about what the right delivery mechanisms are, but we are not in a situation where we would say, "Just because we have something called the Rural Payments Agency, when we come to think about the replacement for the common agricultural policy we will just ask an agency to do that for us." That is not what the agency has been set up to do. That is not where our expertise sits.

Q96 **Stephen Phillips:** Not even on your own criteria, because it does not make payments on a timely basis, as we all know.

**Clare Moriarty:** I am working very hard on that.

Q97 **Mr Bacon:** But going back to the central point about the right person being connected up at the right time, you said that the policy team at the centre design it and then the operational policy people figure out how it is going to be implemented. Sir David Omand once told us that if there is not a representative of the deliverer in the room at the start—ab initio—when the whole thing is kicked off, there is very little chance that it will be a good policy. Now surely that must be as true for the RPA as it is for anything else and, as Mr Mills said, it is maybe an example completely at random, but unfortunately for you it is one where there is a lot of form.

I think it was David Hunter of DEFRA who said, when it was decided that the dynamic hybrid would be introduced and questions were raised from the frontline—I cannot remember whether it was Bill Duncan who said it was madness or Bill Duncan who said it was a nightmare; one said it was a nightmare and the other said it was madness. David Hunter used one of those adjectives and then later said, "The RPA will do what it's told", and we all know what happened—it crashed. So is there some thinking going on about whatever scheme you come up with—of course, we are not a policy Committee—to make sure that it is very straightforward and simple and very implementable?

**Clare Moriarty:** The answer to that is yes. As you know, I have been in DEFRA for only a year, so the conversations that you are referring to predate me, so I will defer to you on those.

Q98 **Mr Bacon:** Well, there is a very good book on this; there is a whole chapter on it. You just have to go and read it.

**Clare Moriarty:** I can assure you that I have read the chapter, but I probably need to go back and reread it.

The first thing I should say is that I apologise for a slip of the tongue. It certainly is not a question of doing, as it were, the legislative policy followed by the operational policy, as if there was a divide between them. Absolutely, we have to think about deliverability at the point of starting to design the scheme, and that means having people who have a great deal

of experience of how things happen. I am really keen to involve people at the frontline of the delivery body and also to get our customers directly plugged in. I don't think we have been good enough in the past at building user insight into our systems at the front end. We have put things in place, as all of you who are familiar with the history of rural payments know, and then we have had a lot of feedback from customers. We could improve how we do that by getting feedback from customers built in to the process at a much earlier stage, but whatever we design has absolutely got to be deliverable and implementable, and I am very committed to making sure that we have that right up front.

**Q99 Chair:** I am sure that farmers across the country are hanging on your every word, and we will be holding you to account for that, Clare Moriarty.

Can I just ask a last couple of quick questions? We have been very interested in this Committee in accountability system statements—that is how exciting our life is—and we notice that in the MOJ and in DCMS you do not yet have those in place. I wondered when they will be in place, Sue Owen.

**Sue Owen:** We saw the Report in May, and we are certainly talking to the Treasury about it. We do not, at the moment, have plans to introduce them. Our most recent internal audit report thought that our management agreements or framework agreements were very comprehensive, and we have a governance statement in our accounts, which have been laid this week, which describes the most important accountabilities. But we are certainly going to discuss this with our audit and risk committee and to see whether we need to set it out in more detail.

**Q100 Chair:** But if you have had that clean bill of health that you are describing—I look to the NAO—that is nearly an accountability system statement, so I am not sure what the difference is.

**Sue Owen:** I agree, I am not sure what it would add, but we will have a look at whether it would add anything.

**Q101 Chair:** I don't know whether the NAO want to contribute about what an accountability system statement would add to what DCMS have just described. Don't feel you have to—you can think about it while Richard Heaton comes in.

**Richard Heaton:** I found preparing for this hearing really interesting. I read the DEFRA statement and asked my folk whether we have those or not. We did not have any plans to, and we thought, as you have heard, that the systems we had in place were fine. We all know, within the Ministry of Justice, how we run our arm's length bodies—the three-tier system is well known. Reflecting on this hearing and the preparation for it, I think a public statement that sets it all out and makes it easier for external scrutineers, for arm's length bodies and possibly for the public, if they are interested, would be a good thing, so I will go back viewing this quite positively. It is not going to change the world—a single document



## HOUSE OF COMMONS

does not change the world—but I cannot see any harm and I can see some benefit.

**Q102 Chair:** We talked to you before, Mr Heaton, about the announcement in the last Budget on devolving some of the MOJ responsibilities, but there are all sorts of other things. It helps, in terms of accountability, to follow responsibility and the tax pound. That is one of the reasons we are in favour of this—that is what we are after as the outcome, whatever the means of getting there, and accountability system statements seem to us a good way of doing that. John Manzoni, do you have any thoughts about where we are with accountability system statements?

**John Manzoni:** My request is going to be that at the end of these processes of governance review we end up with a framework document for each ALB, which I think does not yet exist across the board. As Sue said, the reason she is going to have a think about the accountability system statements is that she has it nailed at the individual ALB level. Both are valid, but one of my requests for the system is going to be that we do a review and, at the very least, get a framework document that encodes for each ALB the governance, the risk, the performance management and all the things that—

**Chair:** From our point of view, it is so that we as a Committee and the citizens we represent can see who is responsible for what, where the money goes and who is accountable for it.

**John Manzoni:** It is a valid point.

**Chair:** At the moment, it is a very complex picture, and you have to be a member of the Public Accounts Committee or have a degree in public administration to work out what lies where. That is not really acceptable.

**Richard Heaton:** To achieve greater consistency, before I ask someone to set pen to paper, I might check with the centre to see if there is a particular format we are supposed to be doing these in. It would be even easier if they all followed the same one.

**Chair:** We are not keen to set up whole new bureaucratic structures; that is not our job. Our job is to make sure we are challenging you and that we have the tools, the data and the information to do that.

**Sir Amyas Morse:** I will only add this. It sounds like your review is going in the right direction. The only question you would ask about an accountability statement is, "When you say, 'I'm the accounting officer. I'm accountable for what is going on here. I know and I am in a position to assure you that I'm discharging my responsibility as the accounting officer,' is anything substantial left out of that where we would say, 'Well, you say you're in charge of all this, but actually this looks pretty fuzzy'?"

We are not expecting you to have line-by-line control or anything unreasonable like that, but there should be a consistently applied, logical, credible approach. It should be the same thing you are looking for in your review. I sincerely hope that if there was any gap between those two,



## HOUSE OF COMMONS

from the accountability point of view, those are simply the tests we would reasonably apply. That is what accountability statements—which, after all, were not invented by us—are supposed to allow you to do. They simply show how you discharge—

**John Manzoni:** I think I need to be careful because, in the end, the accountable Department for this is the Treasury. I believe that they have not yet responded in the Treasury minute to the hearing that we had.

**Sir Amyas Morse:** No, we are looking forward to that.

**John Manzoni:** I know you are, and that is why I am saying we had better wait for that to officially—

**Stephen Phillips:** Don't let the Treasury boss you around, Mr Manzoni; you do what you think is the right thing.

Q103 **Chair:** You have recently done that, we noticed, in the media. May I move on to an important issue that is slightly separate from the Report but nevertheless relevant to arm's length bodies? The Committee has discussed whistleblowers and gagging clauses in pay-offs and contracts quite a lot. I just want to be clear about what the position is. Are arm's length bodies of any sort—of the very many types we are discussing—allowed to include gagging clauses in contracts, or in any redundancy or severance arrangements?

**John Manzoni:** I am afraid I don't know the answer to that one, but I will let you know.

Q104 **Chair:** Can you get back to us? I don't know if any of the permanent secretaries can tell us about their own Departments in that respect—no. For the record, there are lots of bewildered looks.

**Mr Bacon:** Can I give you a clue? The answer ought to be that they are explicitly banned. That's where we thought we were some time ago.

**Chair:** But we are hearing that that may not be the case. We really do want to know, so can we get an answer on that in the next week? If Mr Manzoni could give us a clear position on that from the Cabinet Office, that would be particularly helpful.

**John Manzoni:** Yes, I'll find out.

**Chair:** We have had quite a wide-ranging discussion. We think there is a lot of work in progress here, but there is a lot still to be sorted out. It is very interesting to note that when the current Prime Minister became Home Secretary, she brought arm's length bodies very rapidly into the Home Office, as an approach to managing risky areas. There are other different schools of thought on how to run different bodies. We are not suggesting that you take her approach—that is not our job as a Committee in any case—but we are going to be watching how this goes and looking at the review process that you have in place, Mr Manzoni. I look forward to talking to you about it again.



## HOUSE OF COMMONS

Our transcript will be out, as ever, in the next couple of days, but our Report is now not likely to be out until around October. Thank you very much for your time on this warm day. The public session is now over.