

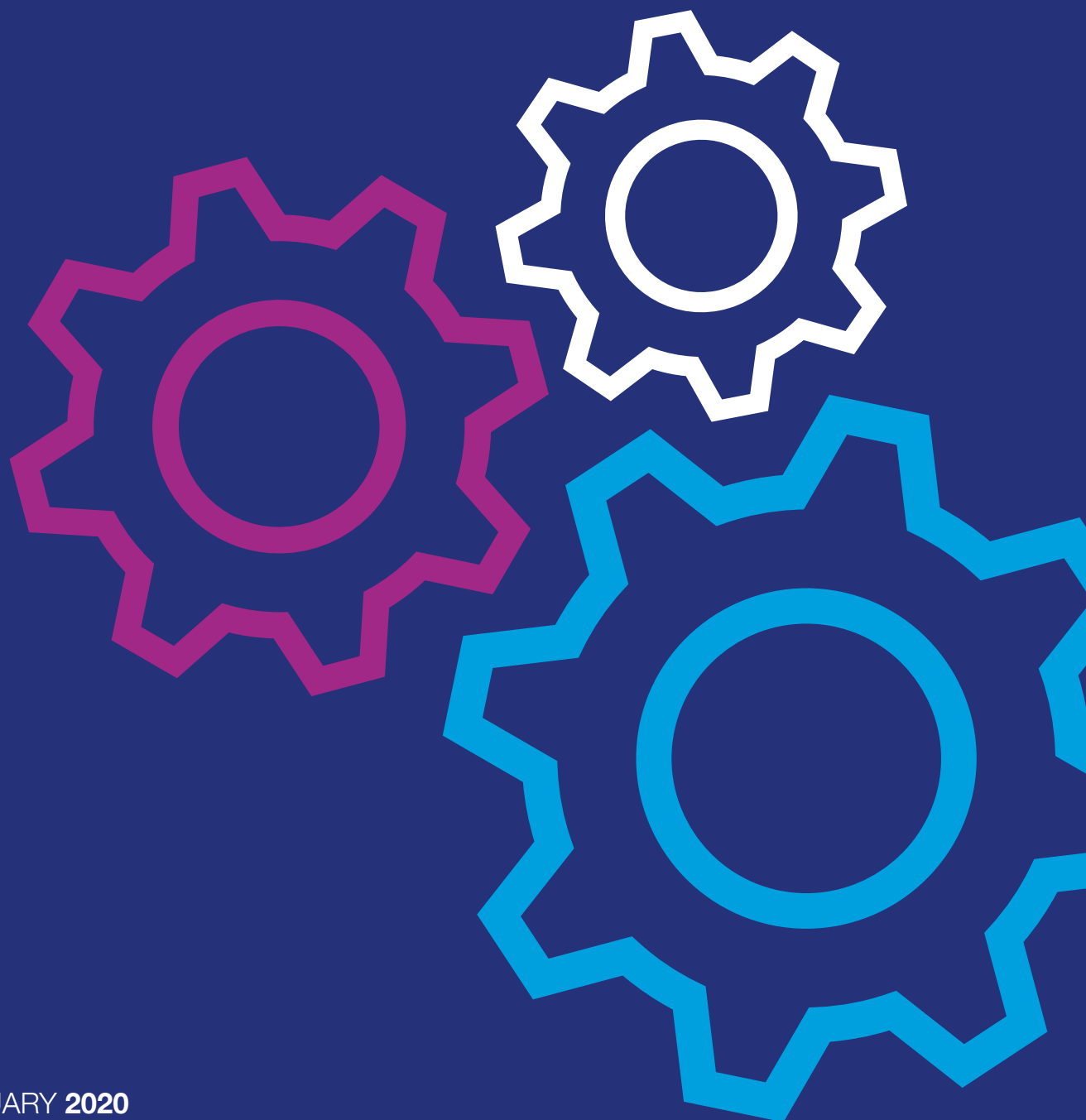


UK Government
Investments

UK government arm's length bodies:

the case for them in specialised delivery
and how to optimise their use

A view from practitioners



JANUARY 2020



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Foreword by Sir John Manzoni

Effective delivery of government services and projects is fundamental to the successful running of government and in providing value for the taxpayer. Arm's length bodies play a vital role in supporting and delivering government objectives, and it is critical that such bodies are set up and used optimally to carry out what are often complex functions.

Colleagues across government work hard to provide constructive support and effective sponsorship of our many arm's length bodies. However, we are not always as clear or consistent as we could be on how to use arm's length bodies effectively, particularly in respect of specialised delivery, or in recognising the level of expert capabilities required to do so.

The Cabinet Office and departments across government continue to work to raise standards in this area. This practical paper complements and supports the Cabinet Office's guidance and provides real life examples to add to current thinking in this area. Based on expert practitioner knowledge, it identifies the core characteristics of an arm's length body that are desirable for specialised delivery, and sets out the critical criteria for government to enable the success of such bodies, including highlighting the importance of the shareholder function. Our success relies on continuing to build sophisticated skills and capabilities in this area.

My thanks to UK Government Investments, as government's centre for excellence in corporate governance, for leading this work and to those from across Whitehall who contributed to and supported it. I recommend colleagues across government take account of these pragmatic recommendations, which are intended to complement existing government standards and guidance, and help government colleagues navigate the important path of delivery through arm's length bodies.

A handwritten signature in black ink, appearing to read 'John Manzoni', written over a horizontal line.

January 2020

1. Introduction

The UK government is responsible for the delivery of multiple services and projects. Many of these are complex and require technical, specialist inputs and capabilities to be delivered. Delivering these functions effectively and successfully is critical for the public benefit and the public purse. Government's current portfolio of *major* projects¹ alone is worth over £440bn².

For certain tasks, government can deliver these services and projects using in-house resource from within central government departments. However, where government does not have the necessary skills, capability or capacity itself, it may deliver through the private sector – either directly or indirectly. There are a number of ways to do this, and, depending on the nature and complexity of the services or projects in question, one option available to government is delivery through an arm's length body ("ALB").

This paper considers:

- (i) the landscape for ALBs and their use by government;
- (ii) how government approaches delivery, and when government ALBs may be the best solution for specialised delivery; and
- (iii) in circumstances where ALBs are used, what should be done to optimise their use.

There is a significant amount of government guidance relating to ALBs, for example on the process for setting up new ALBs, what constitutes effective governance, and how to manage the relationships between ALBs and their parent department. Key documents practitioners should refer to in the first instance include the Cabinet Office guidance: "The Approvals Process for the Creation of New Arm's Length Bodies: Guidance for Departments"³ and "Partnerships with arm's length bodies: code of good practice"⁴ as well as "Managing Public Money". This paper does not seek to duplicate existing guidance, nor is it an assessment of how well existing ALBs are operating. Instead the focus is on sharing *practical* experience as to when ALBs should be considered an effective means to achieve specialised delivery, and the critical factors needed to make them a success.

Written by UK Government Investments (UKGI), with contributions from the Cabinet Office, the Infrastructure and Projects Authority (IPA) and others, this paper provides expert practitioners' views from across government on the use of ALBs in specialised delivery. It is intended to set out for colleagues across Whitehall the key features to consider when looking at ALBs as a means of delivering government services or projects, and to be a practical guide on how to optimise new and existing ALBs.

This paper has been authored by Mark Russell, Vice Chair UKGI; Anna Payton, Executive Director UKGI; and Lizzie Dixon, Assistant Director UKGI. UKGI is grateful to all the colleagues who have given their time so generously to share their experience and knowledge to develop this paper, and a full list of contributors is at Annex B.

¹ Major projects are defined by IPA as requiring approval from HMT either because the budget exceeds a department's delegated authority level and/or because the project is novel, contentious repercussive or requires primary legislation. See [Annual Report on Major Projects 2018-19 page 5](#)

² [Infrastructure and Projects Authority Annual Report on Major Projects 2018/19, page 2](#)

³ Cabinet Office: The Approvals Process for the Creation of New Arm's Length Bodies: Guidance for Departments, 2018

⁴ Partnerships between departments and arm's length bodies: code of good practice

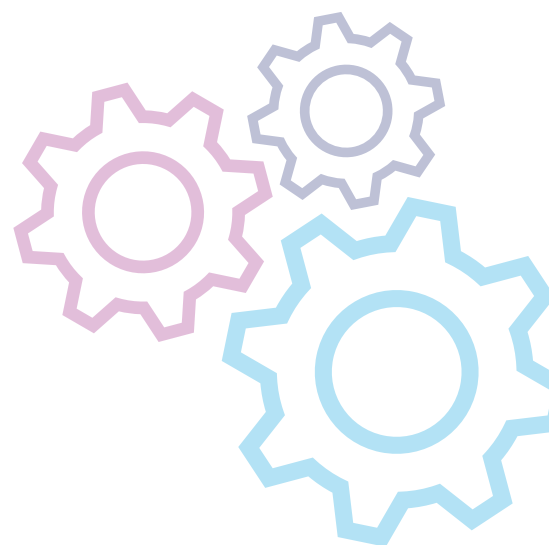
2. The landscape for ALBs and their use by government

What is an 'ALB'

In order to consider the role of ALBs in the UK public sector, it is important to clarify what is meant by the term. The ONS determines how a body should be classified for the national accounts, including whether it sits in the public sector and further, whether it sits in central government. The Cabinet Office classifies central government ALBs into three categories for administrative purposes – executive agency, non-ministerial department and non-departmental public body⁵. Outside technical definitions, the term is commonly used to refer to a wide range of public bodies, including non-ministerial departments, executive agencies, and non-departmental public bodies, but also other bodies such as public corporations, regulators and tribunals; this paper uses ALB in that wider sense.

How ALBs are used by UK government today

ALBs in their many forms are a common feature in the UK public sector. At March 2018, the Cabinet Office had identified over 300 public bodies (executive agencies, non-ministerial departments and non departmental public bodies) in government with a gross expenditure of over £200bn.⁶ Figure 1 below shows the number of agencies and public bodies associated with each government department, demonstrating the common use of ALBs by almost all central government departments.⁷



⁵ [Cabinet Office: Classification of Public Bodies: Guidance for Departments 2016 page 3](#)

⁶ [Cabinet Office: Public Bodies 2018-19, page 4](#) New Cabinet Office data expected March 2020

⁷ Data from <https://www.gov.uk/government/organisations> (January 2020)

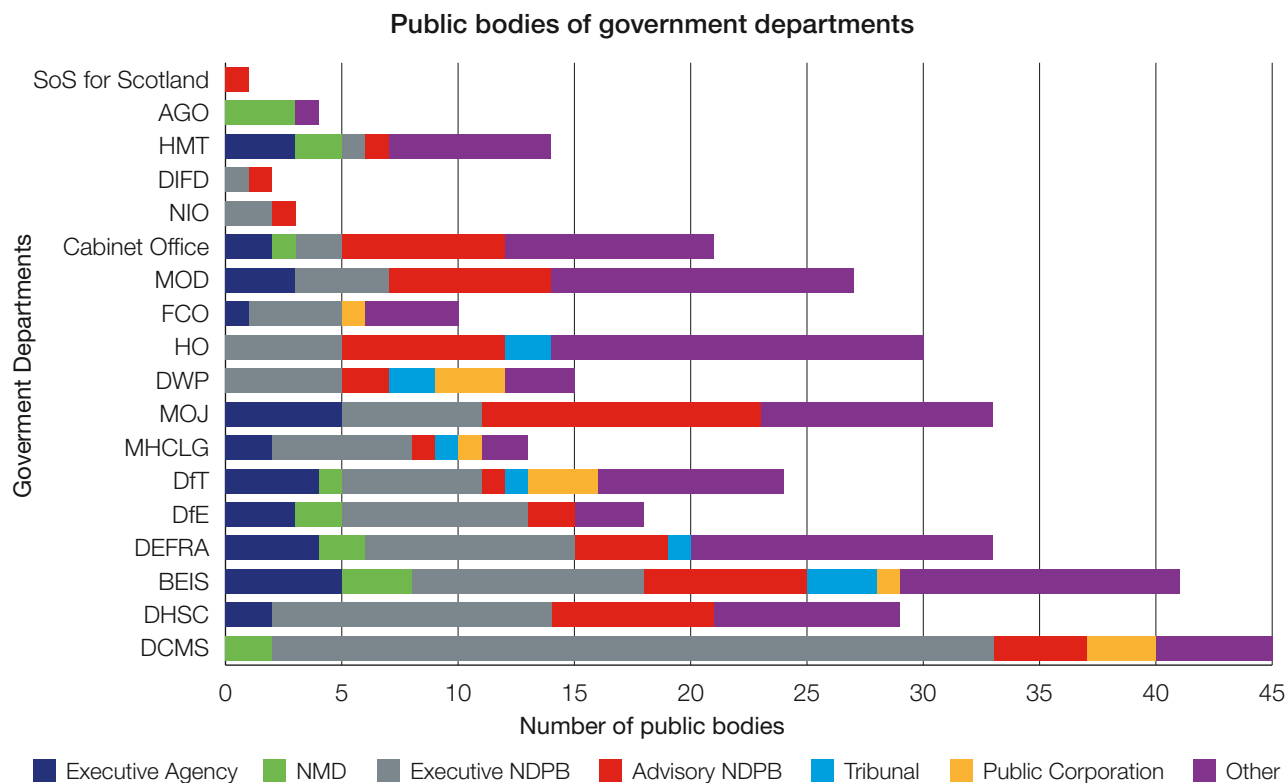
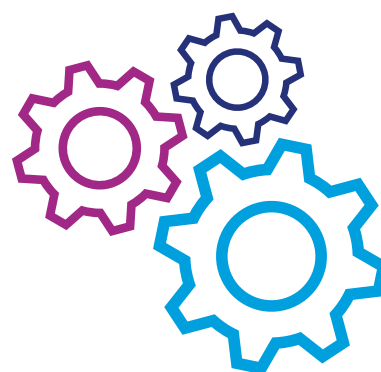


Figure 1

Whilst ALBs are a common feature in the public sector landscape, their use as an alternative means of delivering a central government function has to be justified. Under the Cabinet Office approvals process, approval will only be given to set up an ALB⁸ if the new body will provide a function which: (a) is technical and needs external expertise to deliver, and / or (b) needs to be delivered with political impartiality, and / or (c) needs to deliver facts independently of ministers. These tests are not mutually exclusive, and an ALB may provide more than one of the functions described.

Across the ALB landscape, the *types* of activity that an ALB might perform are wide-ranging. Their roles include **regulating sectors of the economy** and **providing independent and impartial information** (for example Ofcom or ONS), or **providing specialist independent advice** (for example, the Advisory Council on the Misuse of Drugs or Building Regulations Advisory Committee). Alternatively, ALBs may be needed to **deliver technically complex public services or projects** (such as the DVLA, Homes England or Highways England). Section 3 goes onto consider the role of ALBs in the context of complex delivery.



⁸ ALB as defined by Cabinet Office which includes Executive Agency, Non-Ministerial Department and Non Departmental Public Body

3. Specialised delivery and the role ALBs can play

The landscape for government delivery

The UK government delivers multiple services and projects. It may choose to deliver a project or service through its own departments and operational structures. If, however, it is not appropriate or possible to deliver in-house, government has other options for delivery. These may include delivering through local government, a social enterprise, or through an ALB. A further solution is to use direct outsourcing, where government contracts directly with a private or voluntary sector provider for a specific project or service without using an intermediary.

Direct outsourcing

Examples of direct outsourcing as an option for delivery can be seen across government for both large and small projects and services. An indicator of the significant scale of all outsourcing (direct by departments and, indirect, through other bodies) is government's annual spend on procurement⁹.

As set out by the House of Commons Public Administration and Constitutional Affairs Committee¹⁰, outsourcing can be a good method of delivery, with a number of advantages: it enables government to access private sector capabilities and knowledge, it can bring greater innovation and leading-edge technology into government, and it can access a deep market for providing services.

Outsourcing directly by government departments is more likely to be successful when the relevant project or service has certain clear features. The Cabinet Office's Outsourcing Playbook provides guidance as to what these characteristics are likely to be – such as a well defined risk profile and a viable market – to support colleagues across government when considering whether to outsource¹¹.

It is also important to recognise those factors which may make outsourcing a less successful strategy – these are also outlined in the Outsourcing Playbook¹², and set out in Figure 2 below.

Definition of an *outsourced service*:
 “any public service obtained by a contract from an outside supplier” –
 The Outsourcing Play book –
 Central Government Guidance
 on Outsourcing Decisions and
 Contracting, 2019

⁹ HMT PESA (Public Expenditure Statistical Accounts) data shows that 2018-19 government spending on procurement is £292bn (<https://www.instituteforgovernment.org.uk/sites/default/files/publications/government-outsourcing-reform-WEB.pdf>, page 13)

¹⁰ [House of Commons Public Administration and Constitutional Affairs Committee, After Carillion: public sector outsourcing and contractive, Seventh Report of Session 2017-19](#)

¹¹ [Government Commercial Function The Outsourcing Playbook Central Government Guidance on Outsourcing Decisions and Contracting page 18](#)

¹² [Government Commercial Function The Outsourcing Playbook Central Government Guidance on Outsourcing Decisions and Contracting page 19-20](#)

Characteristics of a service that may make it more challenging to outsource:

- core to departmental purpose and objectives;
- complex or high risk and without proven market capability;
- novel and therefore with a limited market to source from;
- experienced many operational difficulties in the past;
- poorly understood and/or not well defined; and
- disproportionate effort and cost to bring back in-house in future

Figure 2

Where these factors exist, government may need to consider alternative means of delivery.

ALBs in specialised delivery

Projects or services requiring specialised delivery can by their nature be complex, and so, as can be seen from the factors above, may not be suited to direct outsourcing by central government. In particular they may require highly technical expertise to manage complex outcomes and interfaces with the private sector, with challenges including:

- having a single contract to cover an uncertain range of multiple outcomes, resulting in a complicated, unwieldy contract;
- contracts where it may be challenging to keep government and contractors' interests aligned; or
- a requirement for sophisticated contract management skills which the relevant part of government does not have in-house.

Where this type of complexity exists, the use of an ALB as a bespoke and appropriately capable interface with the private sector can be the optimum alternative means of specialised delivery. This can provide both the means of effective indirect outsourcing, and / or an opportunity for government to create a specific function or service as needed.

There are two core characteristics, in particular, which can make an ALB well suited to specialised delivery and/or its management. First, ALBs can be designed to have the bespoke skills, capabilities and long term focus needed for the particular complexities identified. Secondly, they can be run with degrees of operational autonomy that enable a bespoke delivery approach, dedicated to specified outcomes.

A. Skills and capabilities

- An ALB can be established with bespoke flexibilities from government controls to enable it to attract and maintain specific skills not found in government, particularly at a senior level. This can include technical and commercial skills key to acting as an effective interface with, or client to, the private sector.
- An ALB enables the creation of specific organisational capabilities not found in sufficient depth or concentration in central government (e.g. specialist procurement skills; complex contract management; or strategic planning in a highly technical industry) which can be given a singular and long term focus.
- An ALB can provide government with the ability to manage split or multiple contracts through a single contract integrator rather than having to rely on the private sector to act as the integrator.



Case Study A: Department for Transport, Highways England

Highways England is responsible for operating, maintaining and improving England's motorways and major A roads. Formerly an executive agency, it was established as a government-owned company in April 2015. The creation of Highways England was key to delivery of the Government's new and ambitious roads investment strategy, with some £15 billion of investment up to 2020. As an arm's-length technical body, it has the flexibility to recruit, retain and deploy people with the necessary skills. This was considered essential to deliver a step change in the scale and speed of investment, deliver efficiency savings, a better service to customers and value for money to taxpayers. Whilst Ministers retain strategic oversight, having Highways England as an arm's-length body allows for clearer governance and accountability on the operation of England's motorways and A-roads.

B. Operational autonomy

- An organisation that has a degree of operational autonomy can allow the design and establishment of a bespoke delivery approach appropriate to the organisation's goals and dedicated to a specific outcome. This, in turn, can help maintain and recruit specialist skills.
- Autonomy places the control and 'guiding mind' together with the expertise, and ensures decision-making and the levers for execution are in the same place. It enables the ALB to apply the benefits of its expertise and technical understanding effectively.
- As ALBs are separate organisations from central government, it is possible to create distinct accountabilities and decision-making, which can help to surface tensions between different government objectives and / or help to maintain focus on the specific outcome required.
- The variety of ALB structures available allow for a range of options at set up of the ALB to tailor to and suit individual service or project requirements. As such, government can create a structure which:
 - reflects the amount of strategic, financial and operational control central government wants to maintain over the organisation (how "long the arm" should be between government and ALB), and the ultimate outcome;
 - allows for an ALB to align with evolving government policy and remain effective in delivery.

For example, an ALB can be a small construct with limited resource that focuses on arranging and managing contracts effectively – where the private sector takes on the bulk of the delivery work and the ALB focuses on contract management, or alternatively an ALB may be resourced both to carry out some aspects of delivery as well as manage multiple contracts. There can be a bespoke solution for the specialised delivery required.



Case Study B: Nuclear Decommissioning Authority (NDA)

The NDA is working to a 110 year strategy (to 2125). Originally the NDA contracted operations for managing Site Licence Companies (SLC) to private sector Parent Body Organisations (PBO). However it became clear that the level of complexity and uncertainty brought about by technically challenging delivery over multi-decade timelines meant it proved difficult to contract via a single PBO contract. The NDA therefore took control of Sellafield directly. Sellafield, in turn, now sub-contracts work to the private sector but via a number of self-contained contracts.



4. Optimising the use of ALBs in specialised delivery

The specific and independent nature of delivering through an ALB means that not only must the policy framework, legislative framework and available funding be right, but there must also be clarity around how government interacts with and facilitates the ALB to carry out its role. The key principles identified in the Cabinet Office Code of Good Practice¹³ of purpose, assurance, value and engagement should be at the basis of all interactions between central government and ALBs. With these in mind, certain critical success factors for specialised delivery through an ALB are set out below.¹⁴ These factors are based on practical experience and reflect what are often the 'elephants in the room' when there are challenges in delivering through an ALB. Addressing these early on will help identify potential issues and support an ALB to be effective.

There is significant guidance within and outside government on the role of ALBs and optimising government's relationship with them – in particular the Cabinet Office's Approvals Process for the Creation of New Arm's-Length Bodies: Guidance for Departments¹⁵, and Code of Good Practice¹⁶ referred to above, as well as the principles in Managing Public Money¹⁷. In addition, in relation to complex project delivery, reference should be made to the IPA's Project Initiation Routemap which provides important guidance on project management governance for government infrastructure projects¹⁸. The success factors below are intended to be consistent with and additional to existing guidance by being:

- (i) prioritised as the most critical factors, which can act as a go / no-go set of conditions necessary to enable an ALB to be successful;
- (ii) as practical as possible, to support colleagues across Whitehall with tangible recommendations as to both the 'what' and the 'how'.

Whilst this paper focusses on those ALBs which have a specialised delivery function, these success factors can also be helpfully applied to ALBs with other roles.

The critical success factors for delivery through an ALB

A. Clear purpose and objectives

An ALB must have a clear purpose, driven by the sponsor department's requirements from the ALB, and broken down into practical objectives. A clear purpose is important because it frames what the ALB is and is not accountable for, creates alignment between the ALB and government as to the targeted outcomes, and enables the ALB to plan effectively how to deliver its purpose.

- (i) The purpose and objectives, as set by the sponsoring department, must be articulated publicly, as well as communicated effectively within the ALB, the sponsoring department and HMT.

¹³ [Cabinet Office: Partnerships with arm's length bodies: code of good practice](#)

¹⁴ A list of key questions to reference as a practical checklist is available at annex

¹⁵ [Cabinet Office: The Approvals Process for the Creation of New Arm's Length Bodies: Guidance for Departments, 2018](#)

¹⁶ [Cabinet Office: Partnerships with arm's length bodies: code of good practice](#)

¹⁷ [HM Treasury: Managing Public Money](#)

¹⁸ [IPA: Improving Infrastructure Delivery: Project Initiation Routemap – Governance Module 2016](#)

- (ii) The policy sponsorship team responsible for the ALB should set the ALB's purpose, as well as the ALB's objectives to the appropriate level of detail (this level of detail will depend in part on how much strategic independence the ALB has). This team should also secure ministerial approval for the purpose and objectives. There must be agreement upfront on the extent of financial, strategic and operational autonomy to be granted to the ALB. This will be set largely by the desired outcome from the ALB – for example, an ALB designed purely to undertake procurement for a department will require less autonomy than an entity trying to address complex market failures.
- (iii) The ALB's purpose and objectives need to be clearly agreed via the Business Case for the ALB's set up, and set out in the ALB's annual business plans, and in the ALB-Departmental Framework Document (FWD). The description of the purpose and objectives needs to be aligned between these documents.
- (iv) The department and HMT should commit to the agreed purpose and objectives at the point of set up of the ALB. If the policy does need to evolve over time, there needs to be explicit agreement as to the governance and timing for doing this.
- (v) The ALB business plan is a key tool for driving delivery and also providing a means to hold the ALB to account. An ALB's business plan should set out both qualitative and quantitative operations and targeted outcomes, cover a period of 3-5 years, and be updated on an annual basis.

B. Clear accountabilities for the ALB board, the department and SROs

It is critical that all relevant parties' accountabilities are clear, and that those who are accountable have the necessary levers to deliver their outcomes. It should be noted that the Principal Accounting Officer ("PAO") and Accounting Officer ("AO") are always ultimately accountable to Parliament regardless of any delegation, but the board of an ALB (whether fiduciary or advisory) plays a key role in holding the ALB executive to account on behalf of ministers and departments.

The ALB Board, Chair, CEO and Ministers

- (i) Once the purpose and objectives of the ALB are agreed, the specific accountabilities of the ALB board, chair, relevant Ministers and CEO must be explicitly agreed, primarily through the FWD, any delegations to the ALB, the AO letter, the chair's letter¹⁹, and the ALB's business plan. Where the CEO is AO, they will be responsible to Parliament under Managing Public Money ("MPM"). The boards of ALBs will have varying degrees of legal obligations (for example, statutory and fiduciary duties depending on the legal structure of the ALB in question) and should understand their responsibilities under MPM and other legal duties where applicable.
- (ii) The accountabilities, and therefore levers, of the ALB board, must be specific on key areas: for example, whether it can hire and fire the CEO; to what extent it can set the ALB's strategy; to what extent it has an assurance role on approvals outside its delegations; what its spending delegations are; what discretion it has on operational decisions like procurement; and what discretion it has over remuneration.
- (iii) It is important that decision-making within the ALB goes up to and through its board – this 'gateway' should not be circumnavigated. Officials within the department have a responsibility to respect the role of the ALB board, and to seek that decision-making does not pass direct from departmental officials to ALB representatives where that is not appropriate.
- (iv) Chair tenures should be of the appropriate length to allow for continuity and reflect project lifecycles, for example, in a project with a long life span, it may be appropriate to appoint a chair for a term length of longer than three, but not more than five years. Subject to satisfactory performance and agreement by ministers where these roles are public appointments made in line with the Governance Code, it may then be possible to seek to reappoint the individual for a further term, but each case will need to be considered on its own merits. This must be balanced by a clear board succession plan that ensures the right skill sets and fresh perspectives are brought in at suitable points. Guidance is available in the Cabinet Office Governance Code for Public Appointments²⁰.
- (v) There may be situations where the board of an ALB and its AO (and PAO) have differing views as to the best course of action for an ALB – for example, when weighing up responsibilities under MPM versus the narrower responsibilities of the ALB. In most cases, the parties will find a resolution to the disagreement through the usual channels of discussion and escalation. In the rare cases where this is not possible, the governance must be clear – so that accountabilities of the AO and the ALB board are not undermined. In the case of boards with fiduciary duties (namely companies and bodies corporate), the board's decision must legally take priority, and MPM sets out a formal escalation route for an AO who believes the

¹⁹ A letter sent from the organisational PAO to the Chair setting out the Chair role, and key priorities

²⁰ [Cabinet Office: Governance Code for Public Appointments](#)

instructions from his/ her Board go against his duties under MPM²¹. In the case of advisory boards, where the AO's decision must ultimately prevail (for example, in the case of Executive Agencies), there should be a clear means of documenting where the board is not in agreement with the AO's course of action.

- (vi) The role of Board members must be clear and understood. Having departmental observers on an ALB board can lead to ambiguity and confusion over what the Department client knows and / or has agreed, potentially confusing accountability and information flows.
- (vii) Ministers will have varying levels of involvement with an ALB. Where they have specific approval responsibilities – board appointments or business plan approvals, for example – these should be clearly understood, documented and followed.

Principal Accounting Officer (PAO) and Accounting Officer (AO)

- (viii) The accountabilities (under MPM) to Parliament of the ALB CEO as AO and the sponsor department Permanent Secretary as PAO must be set out in writing through the FWD and AO letters.

Senior Responsible Owners ("SROs")²²

- (ix) Where an ALB is responsible in whole or in part for the delivery of a project or programme for which there is also an SRO, it must be clear how the project or programme governance intersects with the overarching corporate governance of the ALB. In particular there must be clarity as to how the accountabilities of the CEO, SRO, and ALB board all interact. The Government Functional Standard for Project Delivery²³ and the IPA Routemap²⁴ are key tools to support and improve delivery of infrastructure projects, and provides guidance on project and programme governance.
- (x) The decision as to whether the SRO sits within the department or the ALB should be driven by ensuring he or she has the right levers to deliver. This could be within the department where there is a need for integration across government, or in the ALB where the ALB has significant control over delivery. This will also depend on the delegations granted to the ALB by the department.
- (xi) The accountabilities of project SROs must be set out in writing in an SRO delegation letter ('Osmotherly letters'). These should ensure the SRO has the right levers to operate and deliver against their objectives. Where the SRO is an employee within an ALB, their accountabilities and responsibilities should never be wider than those of the AO. Further, the SRO may be required to provide evidence to Parliament on their responsibilities – the Osmotherly rules²⁵.

C. Sponsorship of the ALB

Capable and strong sponsorship of the ALB by government as a whole is key to its success. Poor sponsorship risks the ALB not delivering its purpose, and weakens the relationship between the department and ALB. A breakdown in this relationship can lead to barriers, mistrust and ineffective governance.²⁶

- (i) There must be clear division of sponsorship responsibilities within government – with different functions explicitly representing government's interests as each of: shareholder, policy sponsor, customer, and funder (where funding or funding approvals come direct from HMT for certain spend). Each sponsor's role and responsibilities should be set out, for example in the FWD.
- (ii) Use of sponsorship terminology is not consistent across government – and so the ALB and department should agree these key terms at the start of the relationship. The definitions as used in this paper are illustrated in the diagram in Annex A.
- (iii) For ALBs of any complexity and / or scale, the shareholder team should be separate from the policy sponsor team. Where a department is also a customer of an ALB (that is, receiving a service from it), this should be through a separate interface. This separation between the government-ALB interactions allows for dedicated resource for each element of sponsorship, as well as more effective surfacing of trade-offs between government's different interests. A department may resource these separate departmental sponsor teams itself, or may carry out its shareholder function through UKGI – UKGI has bespoke government shareholder expertise, and can also help demonstrate clear separation between the policy, customer and shareholder interests.

²¹ [Managing Public Money, Section 3](#)

²² Details on the role of the SRO can be found in the IPA guidance: [The Role of the Senior Responsible Owner, 2019](#)

²³ [HM Government: Government Functional Standard GovS 002: Project Delivery](#)

²⁴ [IPA: Improving Infrastructure Delivery: Project Initiation Routemap – Governance Module 2016, p8](#)

²⁵ [Giving Evidence to Select Committees Guidance for Civil Servants 2014](#)

²⁶ To note, this paper is looking at organisational sponsorship not project sponsorship. For detailed guidance on project sponsorship in major projects please refer to IPA guidance.

- (iv) Each sponsor function must have the appropriate capacity and capability to carry out its role effectively:
- Each sponsor function should have clear objectives in terms of its role with regards the ALB;
 - Government officials sitting on ALB boards should be of sufficient seniority and experience, and understand how to fulfil effectively their responsibilities as board members;
 - The policy sponsorship function is responsible for identifying the desired policy outcomes for which the ALB should be mandated, designing the right purpose for the ALB, and monitoring whether the right policy outcomes are being delivered – focusing on the *what*. Policy sponsor teams should understand the policy performance of the ALB and be able to report on this to senior officials and ministers;
 - The shareholder function should focus on *how* the ALB is being managed, and whether the ALB is performing as an organisation. The shareholder should test and promote the ALB's organisational performance, and be able to report on this to senior officials and ministers.
- (v) It must be recognised when there is a need for cross-government collaborative decision-making to support and enable an ALB – with appropriate senior, cross-Whitehall governance established for key decisions (e.g. through a cross-Whitehall steering group), driven by the sponsor department. The policy sponsor together with the shareholder are responsible for navigating Whitehall and enabling the ALB to seek approvals/contacts where applicable.

D. Capability and capacity

An ALB must be resourced correctly with the right capabilities and capacity at all levels. If an ALB is to be granted appropriate delegations and freedoms, there must be sufficiently strong capability within the ALB to manage these effectively: delegated authorities must go hand in hand with capabilities. Sub-par capabilities and weak experience will jeopardise delivery, undermining a core rationale for having established an ALB, and creating risks to good value for money.

- (i) It is vital that an ALB is able to recruit the right capability and skills, starting at the senior executive level. Pay for senior executives therefore needs to be appropriate – the levels sought need to be considered within the context of MPM and evidenced through appropriate benchmarking against public and private sector comparators. Salaries within certain ALBs – for example those needing technical or commercial skills – may need to be above public sector norms.
- (ii) UK government-wide standards have been developed in recent years to provide clarity to departments about what basic skills and experience are required to perform certain functions (e.g. Commercial Operating Standards, Project Delivery Functional Standards, Human Resources). These standards must be applied in turn as appropriate to departments' ALBs.
- (iii) An ALB board must have the right skill set, experience and composition. The Corporate Governance Code²⁷ provides a framework for best practice. It is of particular importance that a board has:
- a capable chair;
 - an appropriate proportion of independent members;
 - a strong set of non-executive directors (“NEDs”) who play a critical role in the effectiveness of an ALB.
- (iv) The ALB chair is responsible for ensuring the board is effective in its task of setting and implementing the ALB's direction and strategy – this must be clearly set out in the FWD and the chair's annual letter.
- (v) Regular Board Effectiveness Reviews should be undertaken to test and demonstrate fitness for purpose of the board.
- (vi) An ALB board should evolve over time to reflect changes in an ALB's responsibilities or functions, or with different lifecycle stages in the case of a single purpose ALB.

E. Delegations and controls

In order to make the decisions required to run and operate an ALB effectively, the ALB and its key personnel will need appropriate delegations and potentially, subject to agreement, freedoms from certain government controls. Further, if these freedoms are eroded over time, and the level of autonomy impacted, the benefits of a body being at arm's length can be reduced. At the same time, the delegations must reflect the particular needs and timescales of each project or service, and departments should consider both the degree of risk and capability of the ALB in setting these, whilst also giving regard to wider value for money considerations as required.

²⁷ [Financial Reporting Council: The UK Corporate Governance Code](#)

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- (i) An ALB's financial delegations and operational freedoms (e.g. from certain government controls) must be proportionate to the ALB's operational needs, with clear accountability in place.
- (ii) The ALB needs appropriate strategic, financial and operational flexibility to match its purpose and objectives (for example, it may be necessary to execute major transactions quickly, or make long term financial commitments with private sector partners).
- (iii) The ALB's periods of funding also need to be appropriate to its strategic aims – for example, where possible it may be beneficial for funding to go across years.
- (iv) Clarity of an ALB's delegations and extent of operational autonomy is important. If, once agreed, these are undermined this can have significant impacts on the ability of the ALB to operate effectively. Therefore, careful consideration should be given to the application of policy decisions which could have this effect. Equally, if an ALB breaches the requirements of its delegations and authorities, departments should have the ability to review freedoms if appropriate.

F. Transparency, management information (MI), assurances and risk

It is important to have transparency and clarity on how management information ('MI') is to be provided, and agreement on how it will be used. Further a 'no surprises' culture should be supported by clarity on how the ALB's assurance function works, and its approach to risk management. Effective reporting infrastructure will also engender trust between the ALB and sponsor department: the granting of autonomy to deliver comes with an obligation for transparency.

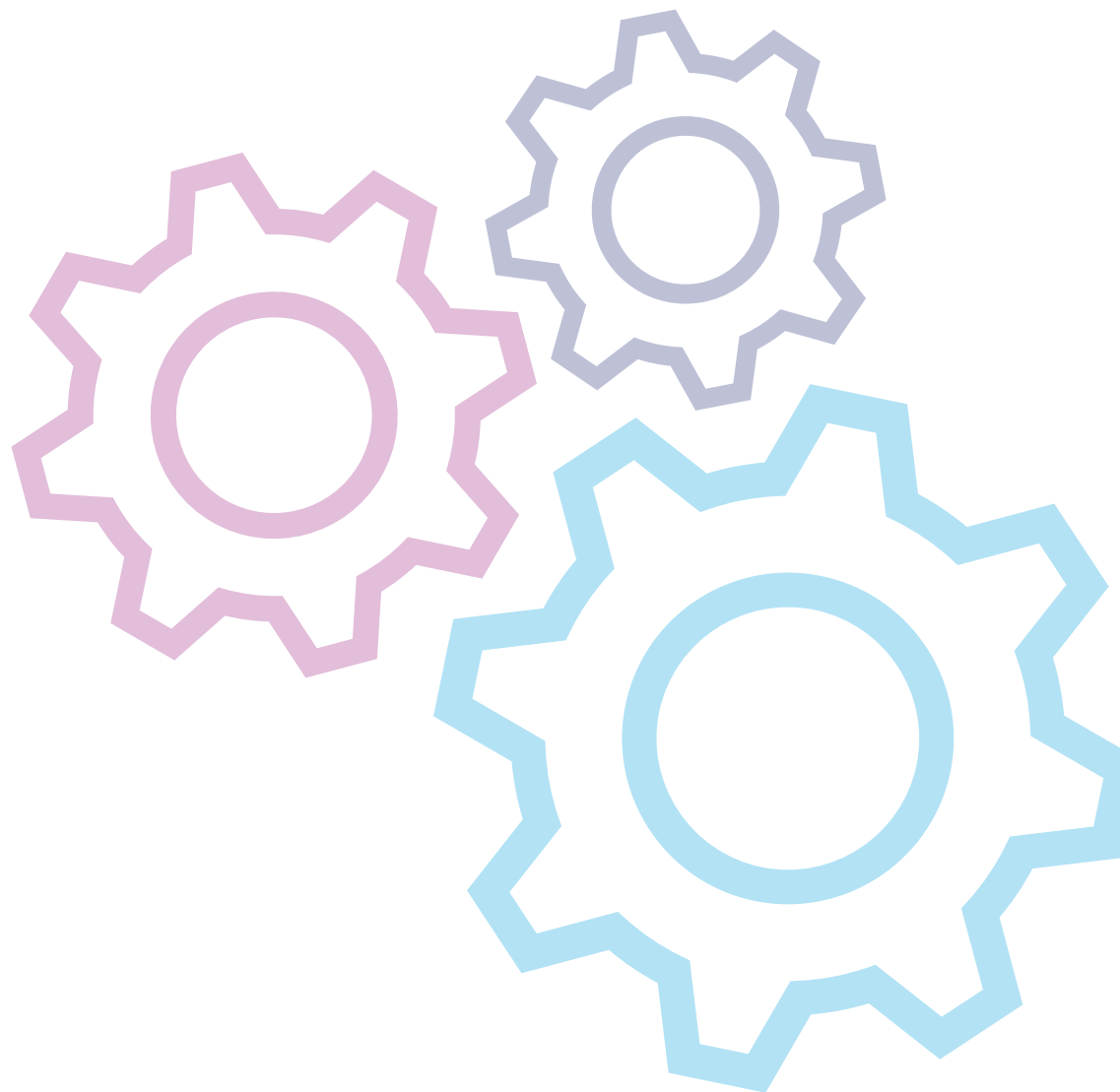
- (i) Reaching agreement as to the process and content of MI from the ALB to government can be difficult to achieve, and will require the ALB, home department and HMT as appropriate to work together. Key factors include:
 - reporting that comprises a 'one version of the truth' MI pack from the ALB, used for reporting to the ALB board and department;
 - a regular cycle of meetings to allow for discussion on the MI, in the form of quarterly or half yearly meetings with the shareholder and policy sponsor teams;
 - agreement as to when independent assurance of the ALB's MI is appropriate to give all parties confidence in the information.
- (ii) The agreed reporting should represent the totality of information needed on a regular basis – as far as possible additional information should not be requested of the ALB unless in unusual circumstances.
- (iii) The shareholder and policy sponsor teams need the appropriate experience and capability to understand and challenge the ALB's reporting, and enable a 'no surprises' dynamic. This is also needed to give confidence to the ALB as to the benefits of sharing information and issues.
- (iv) There needs to be a common understanding between the home department and ALB of each party's risk appetite and approach to risk – through agreed risk appetite statements, processes, and reporting.
- (v) The policy sponsorship team should ensure it has good lines of communication, formally or informally, with the ALB to discuss the ALB's delivery experience in the relevant field so as to provide a feedback loop that supports the department's wider policy making.

G. Behaviours

The right culture needs to be established through appropriate and constructive behaviours on a day-to-day basis as well as more formally. It will set ways of working and help communications and joint working.

- (i) There needs to be a culture of trust and transparency between government and the ALB.
- (ii) Having a shareholder-appointed NED on the ALB board can bring important benefits to the wider relationship as well as to the ALB board itself, and should be considered as a desirable option within the governance model. If there is a shareholder NED, this can support effective two-way information sharing, and communication of the shareholder's views direct to the ALB board. On the other hand, once an ALB is established, having a NED from the sponsor department who represents the policy function is not recommended as this can blur the accountabilities of that individual and potentially disempower the decision-making of the ALB board.
- (iii) There must be an effective relationship between sponsor teams (in particular the shareholder and policy sponsors) and ALB, which means:
 - sufficient capacity within all teams, dedicated to supporting the ALB-government relationship; and

- the shareholder team and policy sponsor working to establish an enabling environment for the ALB as well as challenging its performance.
- (iv) Written agreements setting out the relationship need to be updated regularly (at least every three years), primarily through the ALB's Framework Document.
 - (v) Key performance indicators setting and measuring the ALB's performance must be agreed which drive the right behaviours and underpin the agreed ALB purpose and objectives.
 - (vi) For newly established ALBs, there should be a clear means of progression for them to earn trust and operational, strategic or financial autonomy agreed by the relevant sponsor parties. Once an ALB is established, departments should seek to take control of the operations and decisions of the ALB only if exceptional cases arise.
 - (vii) A summary checklist of the key questions to consider for the critical success factors in an ALB is at Annex C.



5. Conclusion

Delivery of projects and services represents a significant proportion of government spend in the UK. ALBs can play a unique role in specialised delivery where it is clear that government departments cannot achieve delivery in-house, and that the outcomes required are of a complexity that direct outsourcing alone would not be an effective means of delivery. The ability to flex form and function when establishing an ALB, to recruit and retain specialist capability, and to grant certain levels of autonomy mean that the ALB model can be particularly suited to specialised delivery.

However, it is equally important to recognise that there are critical enablers that government must put in place in order to optimise its ALBs and ultimately to ensure that our ALBs deliver value for money for the taxpayer. There are a number of critical success factors, based around purpose and objectives; accountabilities; sponsorship; capability and capacity; delegations and controls; transparency; management information; assurance and risk; and behaviours that will help ensure a high performing ALB and consequently successful delivery of the project or service.

UKGI can provide guidance and advice on setting up, re-purposing and sponsoring ALBs through its centre of excellence for corporate governance. Please contact any of the authors in relation to queries or interest arising from this paper; contact details can be found in Annex B.

Annex A

Glossary/Acronyms

AGO: Attorney General's Office

ALB: Arm's Length Body

AO: Accounting Officer

BEIS: Business, Energy and Industrial Strategy

CO: Cabinet Office

EA: Executive Agency

DCMS: Department of Culture, Media and Sport

DEFRA: Department for Environment, Food and Rural Affairs

DfE: Department for Education

DfT: Department for Transport

DHSC: Department for Health and Social Care

DIFD: Department for International Development

DWP: Department for Work and Pensions

FCO: Foreign and Commonwealth Office

FWD: Framework Document

HMT: HM Treasury

HO: Home Office

IPA: Infrastructure and Projects Authority

MHCLG: Ministry of Housing, Communities and Local Government

MI: Management Information

MOD: Ministry of Defence

MOJ: Ministry of Justice

MPM: Managing Public Money

NDPB: Non Departmental Public Body

NED: Non-Executive Director

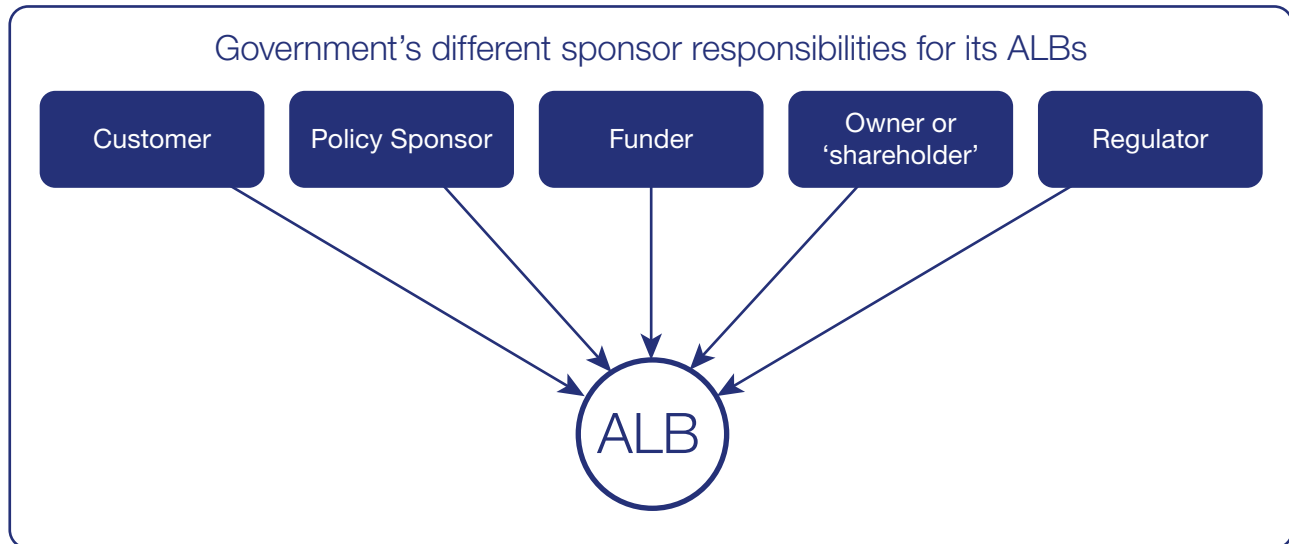
NIO: Northern Ireland Office

PAO: Principal Accounting Officer

SRO: Senior Responsible Owner

ToR: Terms of Reference

Sponsor Role Definitions



Customer: usually within a department, representing the department's interests if it is a recipient of the ALB's services or function. This is the person/team specifying and holding the ALB to account for the specifications of the project, potentially under a contract or similar. This function manages a department's delivery relationship with the relevant ALB

Policy Sponsor: this function is responsible for identifying the desired policy outcomes for which the ALB should be mandated, designing the right purpose for the ALB, and monitoring whether the right policy outcomes are being delivered

Funder: in the case of some ALBs, HMT will provide funding directly, and be an active stakeholder in terms of setting ALB and project delegations, controls and flexibilities

Owner or 'shareholder': the shareholder function represents government's interest that an ALB performs well as an organisation, and promotes the ALB's organisational performance across its key functions

Regulator: depending on the function of the ALB, there may also be a regulatory body, regulating aspects of the ALB's activities

Annex B

Acknowledgements

We are grateful to many colleagues and existing guidance for assisting us with this paper. Two reports in particular have been critical to the development of the paper – the IPA report ‘Major capital programmes: a discussion document based on insights from recent experience’,²⁸ and joint DfT and IPA paper ‘Lessons from transport for the sponsorship of major projects’²⁹. We have worked closely with DfT, IPA and Boston Consulting Group colleagues during their follow up work to the latter paper and would like to thank them for their input.

A full list of guidance, reports and research consulted is at Annex D.

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²⁸ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/509686/IPA_Experience_From_Major_Capital_Project.pdf

²⁹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/796294/dft-review-of-lessons.pdf

Annex C

Summary checklist of key questions for critical success factors in an ALB

A. Clear purpose and objectives

- What are the ALB's purpose and objectives?
- Where are purpose and objectives written/set out?
- How were the objectives agreed and who approved them?
- Does the ALB have an agreed business plan?

B. Clear accountabilities for the ALB board, the department and SROs

- What are the accountabilities and levers of the ALB Board, Chair, CEO, Ministers, Principle Accounting Officer (PAO) and Accounting Officer (AO) (and Senior Responsible Owner (SRO), and where are these explicitly set out?
- Does the Chair tenure fit with the objectives of the ALB?
- Are escalation routes in the case of disagreement between the ALB Board, AO and PAO explicitly agreed?
- Does the SRO sit in the most appropriate position within the ALB-department structure?

C. Sponsorship of the ALB

- Does the ALB have capable and strong government sponsorship?
- Are sponsorship responsibilities clearly divided between relevant teams? Is there a policy team focused on the 'what' and a shareholder team focused on the 'how'?
- Is there agreed understanding of sponsor terminology?
- Are sponsor teams sufficiently resourced with correct capability? Should UKGI be considered for carrying out the shareholder role?
- Is there a need for overarching cross-Whitehall governance for certain decisions?

D. Capability and capacity

- Does the ALB have the right capabilities and knowledge at all levels?
- Are salaries appropriately benchmarked and do they match the specialist skills sought?
- Are government standards being used across the ALB's functions as appropriate?
- Does the ALB Board have the right skill set and composition?
- Does the ALB have appropriate freedoms to run and operate effectively, and which to match its purpose and objectives?

E. Delegations and controls

- Are the ALB's financial delegations and operational freedoms proportionate to the ALB's mandate?
- Are funding periods aligned with the ALB's strategic aims?
- Are there appropriate scheduled review points to assess the ALB's freedoms and delegations?

F. Transparency, Management Information, assurances and risk

- Is there agreement between the ALB and government as to the process of reporting and content of the Management Information
- Is there the requisite capability in the sponsor teams to understand and challenge the Management Information from the ALB?
- Is there an agreed approach to risk between the ALB and sponsor Department?

G. Behaviours

- Are there open, constructive and appropriately resourced relationships between the ALB and government sponsor teams?
- Has a shareholder Non-Executive Director been considered for the ALB board?
- Are written agreements setting out the ALB and sponsor Department relationships in place and updated regularly?
- For new ALBs, is there a means for progression to earn trust and relevant autonomy?

Annex D

Related Central Government Guidance and Wider Publications

Bernard Gray report – Defence Acquisition	https://webarchive.nationalarchives.gov.uk/20120913125559/http://www.mod.uk/NR/rdonlyres/78821960-14A0-429E-A90A-FA2A8C292C84/0/ReviewAcquisitionGrayreport.pdf
Bowe Review	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/479560/bowe-review.pdf
Cabinet office ALB Approval Process	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/686716/The_Approvals_Process_for_the_Creation_of_New_Arms-Length_Bodies.pdf
Carillion Report	https://publications.parliament.uk/pa/cm201719/cmselect/cmpubadm/748/748.pdf
Case Assessment and Classification of a public body	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/690945/Public_Bodies_-_a_guide_for_departments_-_chapter_1.pdf
Civil Service World article on public body oversight	https://www.civilserviceworld.com/articles/news/departments-%E2%80%93-not-cabinet-office-%E2%80%93-know-best-agency-oversight-says-civil-service-chief
Code of Conduct for Board Members of Public Bodies	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/809093/Code-of-Conduct-for-Board-Members-of-Public-Bodies-2019-WEB.PDF
Companies in Government	https://www.nao.org.uk/wp-content/uploads/2015/12/Companies-in-Government_updated.pdf
Contracting Basics	https://www.nao.org.uk/wp-content/uploads/2018/12/Departmental-Overview-Commercial-and-Contracting-2017-18.pdf
Corporate Governance in Central Government Departments: Code of Good Practice	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/609903/PU2077_code_of_practice_2017.pdf
Cracking the Code of Good Practice. A survey of the relationships between public bodies and government departments	https://www.instituteforgovernment.org.uk/sites/default/files/publications/IFGJ5618-Cracking-code-report-170726-WEB2-final_0.pdf
Departments oversight of ALBs – a comparative study	https://www.nao.org.uk/wp-content/uploads/2016/05/Departments-oversight-of-arms-length-bodies-a-comparative-study.pdf

DfT Report: Lessons from transport for the sponsorship of major projects	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/796294/dft-review-of-lessons.pdf
Financial Reporting Manual (FReM)	https://www.gov.uk/government/publications/government-financial-reporting-manual-2018-to-2019
House of Commons PAC: Departments' oversight of arms-length bodies	https://publications.parliament.uk/pa/cm201617/cmselect/cmpublic/488/488.pdf
IPA Report on Major Capital Programmes: a discussion document based on insights from recent experience	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/509686/IPA_Experience_From_Major_Capital_Project.pdf
It Takes Two	https://www.instituteforgovernment.org.uk/publications/it-takes-two
Management of Risk: Principles and Concepts	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/220647/orange_book.pdf
Managing Public Money	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/742189/Managing_Public_Money_MPM_with_annexes_2018.pdf
Outsourcing Playbook	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/780361/20190220_OutsourcingPlaybook_6.5212.pdf
Partnerships between departments and arm's length bodies: code of good practice	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/594345/Partnerships_between_departments_and_arm_s_length_bodies-code_of_good_practice.pdf
PFI	https://www.nao.org.uk/wp-content/uploads/2018/01/PFI-and-PF2.pdf
Procurement and Contracting	https://www.instituteforgovernment.org.uk/summary-government-procurement-scale-nature-contracting-uk
Public Bodies 2018-19	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/786952/6.5040_CO_PublicBodies2018-19.PDF
Public Bodies Classification Guidance	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/519571/Classification-of-Public_Bodies-Guidance-for-Departments.pdf
Report of the Laidlaw Inquiry	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/29866/report-of-the-laidlaw-inquiry.pdf
Who's accountable? Relationships between government and arm's length bodies	https://publications.parliament.uk/pa/cm201415/cmselect/cmpublic/110/110.pdf



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