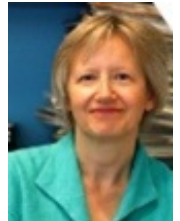


# Establishing effective relations between government and its arm's length bodies requires that they learn to live together

*Central controls have limited the managerial freedoms of both departments and their arm's length bodies (ALBs). **Jill Rutter** argues that their relationship needs to be built on mutual trust and respect.*



The Institute for Government and Public Chairs Forum have been looking at what makes effective relations between government and its arm's length bodies (ALBs). This follows our [2010 report, \*Read Before Burning\*](#), which identified weaknesses in management of relations with arm's length bodies as one of the sources of tension. In particular we identified a lack of clarity on roles and responsibilities, weak performance management, too much churn in relations with frequent turnover in departments, an underinvestment in sponsorship skills and a lack of induction for both newly appointed board members and chairs on ALBs but also for new sponsors.

Since *Read Before Burning* there has been a lot of change. The Public Bodies Act means that over half of all ALBs have faced some sort of significant reform. At the same time, new centralised controls have limited the managerial freedoms of both departments and their ALBs – and the Comprehensive Spending Review created an envelope for running cost reductions of over 30 per cent – comprising both departmental and ALB running costs. That has both meant reductions in headquarters staff numbers up to [25 per cent since the CSR](#) but, combined with the introduction of “Clear Line of Sight” on accounting, also means departments have had to take much more interest in their ALBs.

## The core of an effective relationship

Our new report, [It Takes Two](#), looks at what works and what does not for effective relations between government and arm's length bodies. An effective relationship is characterised by mutual trust and respect where open, honest and constructive challenge is possible both ways. It is neither the “micromanagement” nor the “benign neglect” that was identified in one department's approach in a capability review.

The [framework](#) we have drawn up with the Public Chairs Forum sets out actions by both department and ALBs to create the basis for an effective relationship under five headings:

- Accountabilities
- Strategic alignment
- Financial and performance management
- Communications and engagement
- Relationship management

The key message under all headings is that there are actions both should take to make the relationship work effectively – and the starting point needs to be a real clarity on roles and responsibilities, good understanding of the overall strategic context and a willingness to invest on both sides in making the relationship work. We also recommend a much more public accountability framework for big ALBs – drawing on the New Zealand precedent of Statements of Intent.

## A portfolio management approach

The framework sets out the building blocks for better relations on a body by body basis. But if government overall is to meet its objectives, departments need to see their ALBs as part of a system. One permanent secretary described the change in the way in which the department used to regard ALBs – from separate bodies which they tended to treat as unconnected to the department as other government departments – to seeing them as part of an “ecology” within which key objectives were realised. Another permanent secretary realised after some time in post that the departments’ ALBs, which had also been managed in a very hands-off way, were a major source of risk to departmental objectives.

Some of the large sponsor departments have been moving over to a risk-based approach to managing their portfolio of ALBs. We think that this makes sense. We propose a “dynamic differentiated” approach to ALBs which takes account of two key factors: first the degree of independence from government that the ALB needs to perform its functions and second the degree of “riskiness” it poses to departmental objectives.

In an ideal world, form would follow function and it would be easy to apply an independence heuristic so that a body’s status would be a guide to its degree of independence from government. The new taxonomy for public bodies we proposed in *Read Before Burning* would do just that – differentiating between the “constitutional and judicial bodies” (the most independent, like the Electoral Commission, the Ombudsman and Supreme Court) through independent public interest bodies (economic regulators and watchdogs like Ofcom, the Equalities and Human Rights Commission and the Committee on Climate Change) to departmental sponsored bodies (Arts Council, Environment Agency) which need close strategic alignment with the department. In the absence of that, we recommend that departments need to look to the underlying functions and statutory frameworks to differentiate on a case by case basis.

The other element is a proper assessment of the “riskiness” of the body. Six factors seem most important:

- **Salience** – how important is the ALB to the achievement of governmental objectives
- **Scale** – how big is the budget and how many people does the ALB employ
- **Simplicity** – how complex are the objectives that the ALB is trying to achieve
- **Track record** – how well has the ALB performed against its key objectives in the recent past and how much trust has the department in the judgement of the ALB board and senior management
- **Stability** – how much change is the body going through
- **Sensitivity** – how politically sensitive is the ALB’s business.

Both independence and riskiness should determine where and how the department needs to direct its ever scarcer resources.

## Learning to live together

The initial ministerial anti-quango rhetoric has diminished somewhat. Ministers have reviewed and most ALBs have survived. There are other straws in the wind of change. For example, coalition ministers moved early to assert that policy making was for ministers not for ALBs. But now pressures are moving in the other direction. First, as the government’s priorities move from formulation to implementation it has to recognise that it is very often ALBs and not the core department who are the implementers. Second, as core departments shed staff and expertise, senior managers and ministers in some departments are beginning to realise that there is a wealth of both executive and non-executive expertise sitting in ALBs that departments need to draw on.

As our new report says, [it takes two](#).

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*Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics.*

### About the author

**Jill Rutter** is Programme Director at the Institute for Government. Jill joined the Institute as a Whitehall secondee in September 2009 and was co-author of the Institute's report on arm's length bodies, [Read Before Burning](#) (July 2010). Before joining the Institute for Government, Jill was Director of Strategy and Sustainable Development at Defra.

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