Review of Arm’s-length Bodies

8 December 2011
The Chairperson:
I welcome Cynthia Smith, deputy secretary in the Department of Culture, Arts and Leisure (DCAL); Deborah Brown, director of corporate services and finance; and Paul McAllister, who is heading up the review of arm’s-length bodies (ALBs). I thank you all for coming this morning. I appreciate that you are all busy people — we have already seen Deborah this week — and that you have taken the time to come to this meeting. I also thank you for the very useful document that you sent to the Committee. If you would like to make some opening remarks, Committee
Ms Cynthia Smith (Department of Culture, Arts and Leisure):

Thank you very much. Good morning to you, Chair, and to the Committee. Thank you for the invitation to address the Committee on the review of our arm’s-length bodies. I am Cynthia Smith. I am the senior responsible owner of the review, which means that I will chair the project board for the review and will provide the overall direction for and management of the project. On my right is Deborah Brown, who will be familiar to the Committee in her role as director of finance and corporate services. Deborah is also the senior supplier for this project, and it is her role to ensure that the project plan is realistic and that the team has access to the necessary resources to carry out the review. On my left is Paul McAllister. Paul is my main man; he is the project manager and is responsible for the day-to-day running of the project.

I thought that it would be helpful for the Committee if I provided a bit of a background on the review. In accordance with Department of Finance and Personnel (DFP) and Cabinet Office requirements, which state that all Departments should regularly review their arm’s-length bodies, we initiated this review in December 2010. The bodies that we included in the review were Armagh Observatory and Planetarium, the Arts Council, Libraries NI, National Museums Northern Ireland, Northern Ireland Screen, the Northern Ireland Museums Council and Sport NI. We did not include the North/South bodies — Foras na Gaeilge, the Ulster-Scots Agency and Waterways Ireland — as they are reviewed through separate North/South Ministerial Council arrangements.

Perhaps I should say a few words about the Programme for Government, which is out for consultation. We did not include this review as part of the Programme for Government, as we see it as good practice for all Departments to carry out regular reviews of their ALBs. The remit of the review is certainly not about abolishing ALBs; rather, it will look at delivery mechanisms. Basically, we are trying to ensure that the functions that we carry out are delivered in the most efficient and effective way and that they deliver value for money.

We adopted a two-phased approach to the project. We completed phase 1 earlier this year, and that focused on desk-based research. We looked at the potential for change to the status of
each ALB and at options for future service delivery. We then looked at which bodies should be taken forward to the second phase, which was a more detailed review, and we concluded that all the bodies, with the exception of Libraries NI and NI Screen, should come along to the second phase. We excluded Libraries NI because it had only recently been created, following the implementation of the review of public administration (RPA) reforms. We initially excluded NI Screen because it was going through a separate review in response to issues that were raised by the chief executive. As you know, it is funded mainly by Invest NI but also by DCAL, and issues were raised about its governance, given that they are separate bodies, and how those arrangements were working. Subsequently, there have been changes to those arrangements, and we have concluded that they should now be included in phase 2 of the review. So, NI Screen is included but Libraries NI is not.

As the Committee will be aware, we wrote to you in July with the outcome of phase 1 and a summary of it. The terms of reference and methodology applied in phase 1 will apply to phase 2 as well. We have also supplied the Committee with the project initiation document, which provides further details.

We are currently in phase 2. At the heart of it, we are seeking to determine how the functions of DCAL’s ALBs fit with our objectives as a Department. What are we trying to achieve? How are our ALBs performing in meeting that objective? Is the ALB model the most effective way of delivering the functions that DCAL has been charged with carrying out? Those are the core questions that we are trying to answer.

To determine which bodies we should consider first, we looked at, first, the level of spend for each ALB and, secondly, how the Department has assessed the risk rating of the body. We also looked at whether there were any cross-cutting issues that we needed to consider and, finally, the Minister’s views. We concluded that Sport NI and National Museums should be chosen first because they were both assessed as a medium risk but their level of expenditure, which is some £25 million for Sport NI and some £13 million for National Museums, is relatively high. Although the Armagh Observatory and Planetarium and the Museums Council are also assessed at medium risk, their spend level is relatively low. For example, the observatory is £1.2 million, the planetarium is around £1 million, and Museums Council is less than £400,000. So we took
that into account. NI Screen is a medium/high risk, but, as I have explained, we only included it later in the project. The DCAL grant is relatively low at £1.5 million, so those were the factors that we took into account in deciding to go for Sport NI and National Museums first. We have not taken any decisions yet on the sequence of the remainder of the reviews, but we will agree that at a later stage before the commencement of the next stage of phase 2.

How are we carrying out the review in phase 2? We will review each body separately, starting with Sport NI and National Museums. Each review will involve a similar approach, which is to look at their functions and performance analysis. We will also look at the delivery options and whether there are different ways of delivering that function. Finally, we will come forward with our recommendations and a report for each body.

Looking at functions and performance analysis will involve defining what are we asking, what the functions are, how they are defined for each body and how they fit in with what DCAL is about, its role, what we are seeking to deliver and with what the Programme for Government has charged us with doing. We will then define the respective roles of the Department and each of the arm’s-length bodies. We will look at whether we have the right accountability systems and whether they are adequate to monitor and measure effectively the delivery of each ALB’s functions. We will examine how the ALBs have been performing in the delivery of their functions. Are we getting our processes right in the Department in setting and agreeing business plans, setting our targets and monitoring our performance? We are looking at what we are doing as well. We will also ask whether the body is demonstrating value for money, and how it is doing that.

The next phase is to look at the delivery options. We have established the functions, the performance and the value for money. The next question is: is this model the most appropriate, given the functions that we have defined? Is the delivery model the most appropriate to deliver those functions? We will look at five options. Should we retain the ALB as a non-departmental public body? Should we move it entirely out of central government? Could it move to local government, the voluntary sector or the private sector? Should we bring it in-house to DCAL? Or, should we deliver it through a new executive agency in the Department with a chief executive who is responsible to the board of the Department? Another option is to merge the ALB with
another public body. Is there a duplication of function, and is there another closely related body that is carrying out a similar function? Would it make sense, for value-for-money reasons, to merge the ALB with another public body? Those are the five options that we want to look at for each of our ALBs.

Stage 3 — the final stage — will involve looking at our recommendations and reporting back. Throughout the process, we have given a commitment to keep the Committee and the ALBs that are being reviewed informed and closely engaged at each stage and at key milestones. We will be looking for the views of the Committee and the ALBs and their key stakeholders during the review. We have provided a project plan so the Committee can see clearly where the milestones are. For example, May 2012 will see the completion of the first of the two reports on Sport NI and National Museums. We have been setting up initial meetings with the ALBs as part of the first stage I have described.

I will turn to the question of resources. I have introduced the team. Along with Paul McAllister, Eileen Cowan, at deputy principal level, will carry out the day-to-day work. They have finalised the project initiation document, which we have provided to the Committee. In addition, we are getting advice and guidance from the Strategic Investment Board on our approaches to addressing organisational performance. We will be able to call on resources from our business areas, and we are looking at support from our departmental economists and our governance unit. The work of the team will be supplemented by the business areas concerned and by key advice from our economists, our governance support unit and from the Departmental Solicitor’s Office, as and when necessary. The sponsor branches will assist and quality assure the work that the team carries out. We have to fit that work in with other key programmes and projects. There will be issues, which we have identified in the project initiation document and which we are seeking to manage.

We are liaising closely with the Executive’s Budget review group, as we have been doing throughout phase 1, and we will continue to do so in phase 2 to ensure that there is no duplication. We will feed our information through to the review group. Equally, if anything comes out of the Budget review group, we will take account of that as we go through the process.
The Committee will know that, along with the Budget review group’s work, the Committee for the Office of the First Minister and deputy First Minister wrote to all Committees at the start of the summer, urging them to undertake vigorous reviews of their ALBs. We will also be taking into account whether the introduction of RPA and its time frames will have an impact as work on it continues.

We do not have any preconceived ideas about the outcome of the review, as you will have seen from the outcome of the first stage. There is no presumption either in favour of centralising the functions of the Department or, indeed, of any of the other delivery models that I described. Clearly, it is a key, important piece of work. We look forward to engaging and working with the Committee on it. I hope that has been helpful, Chair.

The Chairperson:
Yes, it has. Thank you very much. What is the timescale for the Budget review group?

Ms Smith:
We do not have a definitive timescale for the work of that group. We have been feeding in as and when requested, and keeping it informed of where we are in our work. We have not been given any clear timetable for the completion of that work.

The Chairperson:
The work that it is doing is at a much higher level.

Ms Smith:
Yes, and it is more engaged in looking at the functions and merging bodies, whereas we are not starting with any preconceived ideas; we are coming in with an open mind. We see it as something we should be doing anyway in the Department, so I think we are at slightly different levels there.

The Chairperson:
I suppose, with a previous hat on, you are very mindful of the background and the work that was going on in relation to RPA, and the commitment in the Programme for Government to RPA. At
this very early stage, are there any indications as to what DCAL functions you would see possibly moving to local councils?

Ms Smith:
As part of the earlier work on RPA, there had been some discussions about, for example, the role of Northern Ireland Museums Council. It looked at Armagh County Museum as well. Those are areas that we will want to pick up on again and work closely and liaise with the Department of the Environment as it takes forward and co-ordinates the work. However, we have not come to any firm views. Clearly, we will want to take that into account as our own review continues.

The Chairperson:
What you are doing really works in parallel with ongoing works with other Departments.

Ms Smith:
Yes, we need to work in parallel with the Budget review group and with the RPA team.

The Chairperson:
In the paper you talked about potential risks and the fact that significant ALB reviews have not been carried out within DCAL recently. When was the last review?

Mr Paul McAllister (Department of Culture, Arts and Leisure):
None of these bodies has had this level of review done since the Department was set up, so, it is a considerable time since —

The Chairperson:
So there has never been a review as such?

Mr P McAllister:
No, not since DCAL was established. There have been some minor reviews, but not to this level of detail. There was a review of Sport NI in 2007, but it was quite short.
Ms Smith:
Clearly, libraries have already been subject to review, but there has never been a comprehensive review where we have looked at all the ALBs together.

The Chairperson:
How are the ALBs responding to this piece of work?

Mr P McAllister:
There has been no specific feedback. There is probably a level of concern, because there will be a degree of tension in any organisation as a result of its being reviewed, but they have been co-operative so far. There have not been any issues.

Ms Smith:
Clearly, the staff involved in any body that is being reviewed will have some concerns. We have ensured that we have written to the trade union side and asked our ALBs to keep in touch with their trade union side as well, just to provide that level of reassurance to staff.

The Chairperson:
The first phase was a desktop piece of work. As you are moving through this piece of work, you will have quite close contact with the ALBs.

Mr P McAllister:
Yes, we will. We will be interviewing the senior staff in all the ALBs during the review in order to take their views. We will also be seeking the views of the Committee and of major stakeholders to ensure that we get a rounded picture of the position. We will also review how the Department works with ALBs to ensure that that relationship is as efficient and effective as possible.

Mr D Bradley:
I was going to ask the same question that the Chairperson asked about engagement with the arm’s-length bodies. You said you would be meeting with senior executives as the next part of the review.
Mr P McAllister:
We will meet with the chief executive and his senior staff, and with the chair of their board or trustees, depending on the structure of the body.

Mr D Bradley:
Have you shared the work that you have done to date with them?

Mr P McAllister:
Yes, we have.

Mr D Bradley:
Have you asked for any response to that?

Mr P McAllister:
I have not asked them for a response, but we would welcome any response. We are happy to talk to them. I think that they are waiting until we get into the detail of the review before they give us feedback.

Mr D Bradley:
Is the process largely efficiency driven?

Ms Smith:
It is something that we are required to undertake. Each Department should be looking at its arm’s-length bodies at regular intervals to determine their efficiency.

Mr D Bradley:
You say that you are required to do it, but you have not done it before.

Ms Smith:
We have never done it comprehensively. We have looked at aspects of different bodies, but we have never taken all of the bodies together and reviewed them comprehensively. This approach
also allows us to share lessons from each of the reviews that we are carrying out. There are broad overall lessons. Part of what we are looking at is our governance and accountability arrangements. We are examining whether we are clear in what we are asking the arm’s-length bodies to have in their business planning processes, for instance. Are we setting the right policy objective? Is that clear? Are the relationships absolutely clear so that each of us is clear on what we are seeking to achieve and how that fits in with the Programme for Government? Value for money is important as well. We are looking to see whether the structure is right. Is an arm’s-length body format the right way to deliver each of those functions? Or, are there alternatives that would achieve the same objective, but in a more efficient or effective way? There may be good reasons why it is not appropriate or why we will not change it, but we need to examine those.

Mr D Bradley:
The Department had some unpleasant experiences with ALBs in the past, regarding finances. One of those, the Northern Ireland Events Company, is still being investigated. I would be interested in getting an update on that, Chair. We have not heard anything about that recently.

What accountability arrangements do you have for the arm’s-length bodies?

Ms Deborah Brown (Department of Culture, Arts and Leisure):
We went through a very extensive review in 2008, following the Events Company issues. We worked closely with DFP, which set up an arm’s-length body review team. As a consequence of that, we have a comprehensive sponsorship manual, which sets out clearly the roles and responsibilities and how we discharge our governance arrangements. It includes all the elements that one would expect to see in any governance framework within an ALB. We have also completed risk assessments of all of our arm’s-length bodies against that template to assess how well they are doing and whether they need to make any improvements. We have written to all of our ALBs in that regard and set out areas in which we think they could improve, etc. They are working with us on that. We have a robust system in place and a robust set of guidance and procedures. They are supplemented by a management statement and financial memorandum, which establish the relationship between the arm’s-length body and the Department. It sets out the roles and responsibilities.
Mr D Bradley:
A manual is a sort of theoretical guide. What scrutiny does the Department undertake?

Ms Brown:
We have regular accountability meetings, which can happen quarterly or less regularly, depending on the risk rating. They offer an opportunity to discuss any issues that arise, the performance and progress of the arm’s-length bodies against business plans, issues arising around finance, potential frauds and issues on internal and external audit recommendations. We also have quarterly assurance statements from the chief executives of the arm’s-length bodies. In those, they make representations to our accounting officer on all the controls and procedures they have in place to provide assurance to our accounting officer and to highlight any issues on their performance against their business plan. There is, therefore, a very comprehensive structure around all of those systems.

Mr D Bradley:
Is the Department reasonably content that the arrangements that it has put in place are working efficiently and effectively?

Ms Brown:
The Department places great reliance on the representations that are made by the accounting officers in each of the ALBs. We supplement that quarterly assurance statement with any information that we have gleaned through the accountability meetings or any other areas. There is, therefore, a very good communication flow, which gives the Department that level of assurance.

Mr D Bradley:
At the moment.

Ms Brown:
At the moment. Like everything, it is only as good as the information we are supplied with. There are other areas in which we do some verification visits and other things to supplement that
assurance.

Mr Swann:
Thank you for your presentation. You mentioned the project team. Can I clarify that everyone on that team is a civil servant from DCAL and that there is no outside business audit input into any part of the process?

Mr P McAllister:
The project team consists of DCAL staff. We will call on the Strategic Investment Board for advice and support. We obviously have access to the Departmental Solicitor’s Office for legal advice if there are any major structural changes. We also have access to our own in-house teams of economists.

Mr Swann:
So, this review of arm’s-length bodies is DCAL looking at DCAL?

Mr P McAllister:
It is DCAL looking at DCAL, yes.

Mr Swann:
Earlier you said that the process is also about your governance and that you are looking at how you have managed things over the past few years. If it highlights any failures, will the report publish those? Will you be brave enough to say where you fell down?

Ms Smith:
Absolutely. No doubt those issues will be raised in our engagements. I am sure that people will not be slow in telling us about any areas where we have fallen down. If there are areas that we need to improve we will be looking at those, because we want to get it right. Roughly 85% of the Department’s expenditure goes out through our ALBs, so we want to ensure that the functions that DCAL is charged with delivering, mainly through its ALBs, are carried out in the most appropriate way.
Mr Swann:
You can see where I am going. It might be more transparent if you had somebody from outside the Department as part of that project to make sure that you were being honest with yourselves.

Ms Smith:
That would be the normal way of following the guidance. The Department should be carrying out those reviews. Clearly, if there are other issues that have arisen that would warrant a different arrangement, that would be considered, but it is normal for Departments to carry out regular reviews of their functions, activities and delivery mechanisms.

Mr Swann:
There is also a concern there. I am not aware of any relationship problems — historical, functional or personal — between DCAL and an arm’s-length body that could manifest themselves in the project team. I assume that you are independent enough to do the review.

Ms Brown:
Because the structure has the oversight of the departmental board and we are supplemented by the governance support unit and our economists, we do have other people looking at it as well. The project initiation document is very clear in that it also recognises that as and when we find out some of those issues, we go back to things like our sponsorship manual, etc, to look at the way in which we are discharging our responsibilities and at whether we need to clarify the roles or revise the way in which we discharge the governance. We recognise that it is also the Department looking at itself, and that is clearly outlined in the project initiation document.

Mr Swann:
You also mentioned that you would be looking at where there is duplication between arm’s-length bodies and where you could bring the full delivery back in-house to DCAL. Is there any option in the review to look at part of the function of an arm’s-length body? I am thinking mainly about the likes of payroll and HR. Perhaps those sections could be lifted out of each arm’s length body and centralised.
Ms Smith:  
That is a really good point. There may be efficiencies to be gained by sharing common services. We know that that has been the experience in some other areas that have ALBs, where, for example, an audit function or finance function is shared. There may be scope for that. That is an area that we will also be addressing. It is a good point and a good area in which efficiencies could possibly be delivered.

Mr Irwin:  
Thank you for your presentation. Whatever recommendations are made at the end of the review process, will the arm’s-length bodies have any appeals process, or will they have to accept the recommendations?

Ms Smith:  
They will clearly also have views on the recommendations, which will be taken into account, but, ultimately, it will be a matter for the Minister to decide on.

Mr Irwin:  
Armagh Observatory and Planetarium are in my constituency of Newry and Armagh, and I have concerns about them. The observatory in particular has been a long-established and important part of Armagh; in fact, both are. They are very important facilities.

Ms Smith:  
Absolutely.

Mr P McAllister:  
If we went for a major structural change to any of those bodies there would have to be an implementation phase, which would have to include full public consultation.

The Chairperson:  
That ties in with a question I have. I am seeking clarification. On page 5 of the project initiation document, it states:

“The Project team will agree its findings with the relevant Business Area before submitting to the Project Board for approval and agreement to proceed to the next stage.”
That is, the end of stage 1.

“If the functions are no longer required the review will terminate at this stage.”

Will that have an immediate effect on the arm’s-length body at that stage?

**Mr P McAllister:**

If we discovered that the functions of one of those bodies were not required, we would have to go to an implementation phase for a clear recommendation on what we should do about those functions. We would not look at how to deliver those functions efficiently and effectively, if the intention was not to deliver them.

**The Chairperson:**

So, at that stage, you would look for alternative means of delivery?

**Mr P McAllister:**

Yes. We would have to create a separate project to look at how to take forward that decision. However, there are steps here that would become irrelevant.

**Ms Smith:**

Clearly, if it were a key decision like abolishing a body, it would be subject to full consultation as well. That would be another project that would have clearly defined limits and involve clear consultation.

**Mr McMullan:**

How much of this is mandatory when you call for information from some of those bodies? The word “mandatory” is not in the document; there are only words like “available”. What if the bodies refuse to give information to your investigation?

Another part of the question is: how many bodies are linked to some of those arm’s-length bodies? How many bodies that we do not know of play a major role in the running of them? Looking through your report, I see that, in running the observatory in Armagh, the Church of Ireland plays a major role. What is that role? How much money does it bring to the table in the running of the observatory? Are all those provisions mandatory, or can those non-governmental
bodies refuse to give information?

Ms Smith:  
We do not anticipate that the bodies will not co-operate with us. It is in their interest to co-operate fully and provide the teams with as much information as they can. They, too, will wish to have a good outcome from the review. I do not anticipate that that issue will arise, and it has not happened in my experience that bodies have not fully co-operated. The Minister has made it clear that she expects all the bodies to fully co-operate in the review.

Mr McMullan:  
Right. So, we will have those plans in front of us from everybody who is involved in the running of those major bodies?

Ms Smith:  
Yes. At each stage.

Mr McMullan:  
Right. I will come back to that. Looking at alternative streams of funding, we talked about the lottery, the Big Lottery Fund and stuff like that, but let us look at European funding. There are alternative streams of funding from Europe, for example, that are out there but have not yet been tapped into.

Ms Smith:  
We are not specifically looking at the funding of those bodies.

Mr McMullan:  
No, but for the future governance of them. It is part of the remit here.

Ms Smith:  
You are right to raise the issue, and one of the issues that we will want to take into account is, for example, if one of the recommendations were to move a body into the Department, clearly there would be issues about its ability to operate in a more commercial way or to draw on, say, lottery
funds. That is why we specifically referred to that. So that is one of the factors that we will take into account in making recommendations. One of the advantages of having an ALB is its ability to draw in funds such as lottery funds and to operate in a more commercial way than we, in the Department, can. That is one of the issues we will take into account in presenting the pros and cons for changing the current arrangements.

Mr McMullan:
Fair enough, but we are talking mainly about the Big Lottery Fund. There are other funding streams that we have not tapped into, in the European Union, for example. Those are potentially major funding streams but we have not mentioned them.

I have another question on lottery funding. Quite a bit of our lottery funding in the North has been withdrawn for the Olympic Games. One of the questions we have asked is whether that funding will be returned afterwards. That has not been answered.

If that money is not returned after the Olympic Games, some of the bodies that are being reviewed will face funding pressures. We cannot expect local authorities, even under RPA, to pick up that tab. That is a major point for the future funding of some of those organisations.

The Chairperson:
Strictly speaking, this review is about the functionality and delivery of the model, rather than the funding of those bodies, although that is also an important aspect.

Mr McMullan:
Yes, Chair, but there seems to be a heavy emphasis on funding from the Big Lottery Fund for survival and implementation. That revenue stream has been taken away, with between £4 million and £6 million taken for the Olympic Games. Will that money come back? It will leave a hole that was not there before.

The Chairperson:
I am just not sure that that is part of the process that is being looked at by this group.
Mr McMullan:
With respect, Chair, it is for the review team to tell me whether that has been considered.

Mr P McAllister:
That is outside the scope of this review. We are looking at how the bodies carry out their functions. The major body that you are probably thinking of is Sport NI, which administers the lottery funding for sport. It will continue to administer that funding, regardless of the level of funding involved.

Mr McMullan:
Will you look at European funding?

Ms Smith:
Not specifically as part of this review.

Mr McMullan:
So, you have not looked at European funding?

Ms Smith:
Not as part of the current review of arm’s-length bodies. That would be a separate exercise.

Mr McMullan:
So, the funding streams that are being looked at are the Big Lottery Fund and the possibility of funding from local authorities and the Departments?

Ms Brown:
We will take those funding streams into account when we look at the appropriate delivery vehicle. The use of some of the funding streams might mean that we could not consider some of the options, because, for example, the Department cannot deliver lottery funding. That is one of the aspects that we will consider. It is not about the level of funding or the bodies’ access to that funding. Those are different issues that will be looked at separately.
The Department is looking at the issue of European funding. We are considering how we might tap into some of the new European funding that is coming along in Peace III, for example. Those are separate things that are being looked at, but they are not part of this review.

Mr McMullan:
Thank you.

The Chairperson:
I want to make some assumptions. The timetable that you have presented indicates that you have already started this piece of work. Is that the case?

Mr P McAllister:
Yes, we have started work.

The Chairperson:
Have you made contact with Sport NI and National Museums Northern Ireland?

Mr P McAllister:
We set up an initial meeting with the chief executive of Sport NI. We are currently trying to arrange meetings with the two chairs and the chief executive of National Museums Northern Ireland. We do not have dates for those meetings, but hopefully they will take place before Christmas. If not, they will happen shortly after that.

The Chairperson:
That is great. Obviously the indication is that if everything goes to plan, you hope to be back with us in May 2012 to give us some initial findings about those two organisations.

Ms Smith:
Yes, Chair, and we would welcome the Committee’s views in advance of that. We would be glad to receive those.
The Chairperson:
Thank you very much for your presentation and for taking questions.

Ms Smith:
Thank you.